Bow Valley Energy Ltd.

dual platform for growth

2003 Annual Report

Bow Valley Energy Ltd. is an international oil and natural gas exploration and production company that operates primarily in the U.K. North Sea and western Canada. We are engaged in full-cycle exploration and production, including: land purchase; seismic acquisition and interpretation; drilling; facilities and pipeline construction; and the production of oil and natural gas. Our strategy balances higher-risk exploration with lower-risk development and the acquisition of producing properties. We are committed to pursuing this strategy while maintaining a strong financial position. Bow Valley's common shares trade on the Toronto Stock Exchange under the symbol BVX.

MATTHEW L. JANISCH, Vice President, Finance and Chief Financial Officer

NICK J. FAIRBROTHER, Director, International Business Development

JOHN W. ESSEX, Vice President, Operations

MISSION STATEMENT

Bow Valley Energy Ltd. will create and continually increase value for shareholders by profitably growing reserves and production of oil and natural gas. We strive to create a sustainable and profitable company while conducting operations with integrity and respect for our employees and stakeholders. We extract value from assets in the most socially acceptable, environmentally responsible and regulation-compliant manner.

Annual Meeting Bow Valley Energy Ltd. is pleased to invite its shareholders and other interested parties to attend its Annual General Meeting, to be held at the Metropolitan Centre, 333 – 4 Avenue S.W. Calgary, Alberta, Canada on Wednesday, May 19, 2004, commencing at 10:30 a.m. For those shareholders unable to attend the meeting, please complete and return your Form of Proxy.

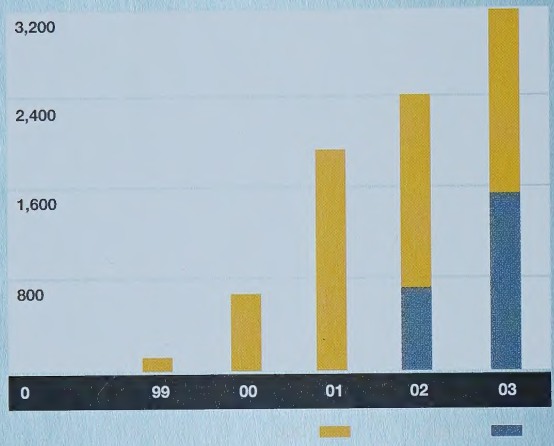
ROBERT G. MOFFAT, President and Chief Executive Officer

DAVID A. FLEMING, Vice President, International

TOM J. RUISSEN, Vice President, Exploration

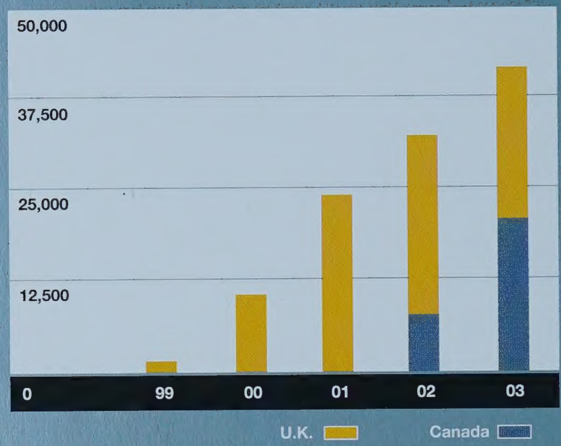
STATISTICAL REVIEW

(boe/d)



Net Revenue

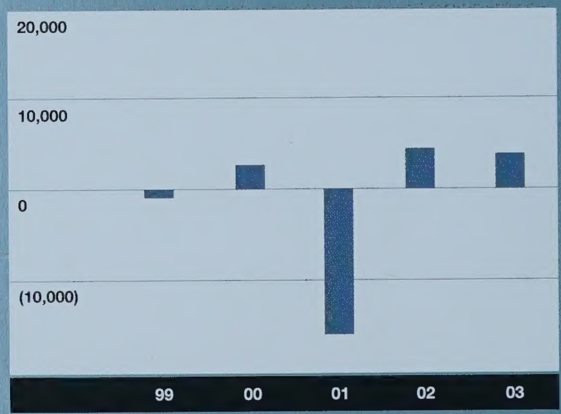
($000s)



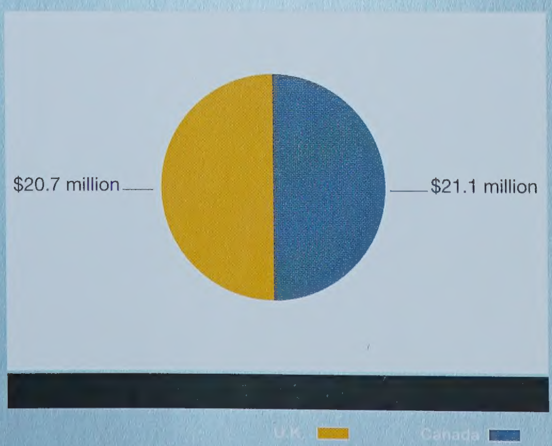
($000s)

Net Earnings (loss)

($000s)

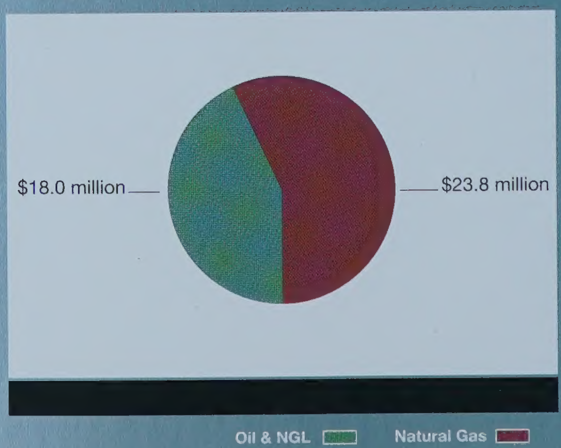


(%)



2003 Revenue by Product

(%)



HIGHLIGHTS

($000s, except as indicated)	2003	2002	% Change
Financial			
Operating revenue	**41,753**	31,605	32
Cash flow	**23,633**	13,613	74
Basic per share ($)	**0.38**	0.27	41
Diluted per share ($)	**0.38**	0.27	41
Earnings (loss)	**3,849**	4,603	(16)
Basic per share ($)	**0.06**	0.09	(33)
Diluted per share ($)	**0.06**	0.09	(33)
Debt and working capital (deficit)	**(2,829)**	(4,850)	42
Shares outstanding (000s)			
Basic	**64,510**	61,844	4
Options outstanding	**3,433**	3,479	(1)
Weighted average			
Basic	**62,019**	51,040	22
Diluted	**62,937**	51,317	23
Operational			
Production			
Crude oil and NGL (bbl/d)	**1,328**	1,459	(9)
Natural gas (mmcf/d)	**11.1**	5.7	95
Oil equivalent (boe/d)	**3,177**	2,409	32
Prices			
Crude oil and NGL ($/bbl)	**37.29**	38.81	(4)
Natural gas ($/mcf)	**5.85**	5.26	11
Oil equivalent ($/boe)	**36.01**	35.94	0
Reserves			
Proved			
Crude oil and NGL (mstb)	**1,023**	2,230	(54)
Natural gas (bcf)	**15.4**	19.0	(19)
Oil equivalent (mboe)	**3,590**	5,397	(33)
Proved and probable			
Crude oil and NGL (mstb)	**12,897**	14,910	(14)
Natural gas (bcf)	**33.5**	41.8	(20)
Oil equivalent (mboe)	**18,480**	21,868	(15)
Undeveloped land (net acres)			
United Kingdom	**40,505**	104,454	(61)
Western Canada	**45,171**	38,338	18

LETTER TO SHAREHOLDERS

When Bow Valley was founded in 1996, the Company set out to grow shareholder value by pursuing international exploration opportunities, primarily in the U.K. sector of the North Sea. The Company has evolved this strategy to now include a western Canadian component that complements the U.K. North Sea agenda. With these dual areas of operations Bow Valley has created a balanced platform for growth.

ROBERT G. MOFFAT, President and Chief Executive Officer

OVERVIEW

Bow Valley Energy Ltd. made steady progress in 2003 towards its goal of building a sustainable production base and balancing its portfolio of oil and natural gas properties between western Canada and the U.K. North Sea. The year represented our first full year of operations in western Canada following the strategic acquisition in August 2002 of Boundary Creek Resources Ltd.

Our entry into the Canadian market diversified our production base from a single producing asset in the North Sea and provided a platform to achieve significant growth over a shorter time frame than offshore operations otherwise provide.

During 2003, we also strengthened our management team to ensure that it has the requisite skill set and depth of leadership to deliver on the Company's strategic plan and enhance shareholder value. I believe that as a result of these efforts, Bow Valley is now a stronger, more balanced company, both strategically and operationally, than it was one year ago.

Bow Valley achieved strong financial and operational results during 2003. The production volumes increased 32%, averaging 3,177 boe/d, compared to 2,409 boe/d in the prior year. For the year ended December 31, 2003, cash flow was $23.6 million, an increase of 74% from $13.6 million in 2002. Net income was $3.8 million, a decline of 16% compared to $4.6 million in 2002 as a result of higher depletion charges.

A BALANCED STRATEGY

When Bow Valley was founded in 1996, the Company set out to grow shareholder value by pursuing international exploration opportunities, primarily in the U.K. sector of the North Sea. This strategy differentiates the Company from many of its peers, not only because of its international focus, but also because of the exploration agenda. The Company has evolved this strategy to now include a western Canadian component that complements the U.K. North Sea agenda. We believe this dual platform for growth creates a balanced strategy.

What do we mean when we say Bow Valley has a balanced strategy?

- We mean the Company is balanced between short-term and longer-term growth opportunities. Canada offers short-to medium-term growth prospects while the North Sea is a medium- to long-term play.
- We mean Bow Valley is balanced between oil and natural gas. The U.K. offshore operations are targeting primarily light oil while the Canadian operations are focused on natural gas.
- We mean that our risks are balanced between: (a) lower risk and more predictable growth associated with the acquisition of producing properties; (b) low to medium risk associated with development of known reserves; and (c) higher risk associated with exploration drilling.

WE RECOGNIZE THAT BUILDING A BALANCED PRODUCTION BASE OF LONGER-LIFE ASSETS IS REQUIRED TO ESTABLISH A SUSTAINABLE BUSINESS. BOW VALLEY UNDERSTANDS THE NEED FOR YEAR-OVER-YEAR GROWTH, BUT IT ALSO UNDERSTANDS THAT THIS GROWTH MUST BE PROFITABLE AND ACCRETIVE TO SHAREHOLDER VALUE. BOW VALLEY'S BUSINESS PLAN IS BASED ON THIS LONGER-TERM VISION AND OUR BALANCED STRATEGY WILL HELP US ACHIEVE OUR GOALS.

- We mean that our capital expenditures are balanced against the different risked opportunities and our financial resources. The Company can readily switch its capital expenditures between different jurisdictions, different projects or even commodities. Bow Valley has financed its business, especially the exploration drilling program, with available free cash flow and equity. As a result, the Company had limited debt at year-end.

One of the bigger challenges faced by junior oil and natural gas companies operating in the Western Canada Sedimentary Basin today is the trend in new discoveries. Because of the maturing nature of the basin, new discoveries are trending to be smaller in size, lower in deliverability and exhibit steeper production decline rates when compared to the larger discoveries of the past. Our ambition is to build an oil and natural gas company of intermediate size with a sustainable business plan. Sustainability and the potential for exponential growth are largely driving our international efforts. We recognize that building a balanced production base of longer-life assets is required to establish a sustainable business. Bow Valley understands the need for year-over-year growth but it also understands that this growth must be profitable and accretive to shareholder value. Bow Valley's business plan is based on this longer-term vision and our balanced strategy will help us achieve our goals.

U.K. NORTH SEA

The Company's U.K. production is from a 14.29% interest in the Kyle field. Production from Kyle during 2003 averaged 7,012 (1,002 net) bbl/d of oil and 27.3 (3.9 net) mmcf/d of natural gas. Bow Valley has interests in four other discovered fields in the North Sea that are awaiting development. In the past, development of these discoveries has been postponed since the partnership group in each property did not have the same timetable or sense of urgency to develop the fields. I am pleased to report that in each of our development properties, there has been considerable turnover in the ownership and the remaining parties are now much more aligned and interested in developing these fields in a timely manner. In the process, Bow Valley has been successful in consolidating some of our own interests. We purchased an additional 0.25% interest in the Ettrick field, increasing our total interest to 12.00%; and an additional 6.25% interest in the Chestnut field, bringing our total interest to 15.125%.

The turnover of companies and consolidation of interests in Bow Valley's development properties is indicative of a trend in the North Sea. The larger multinational companies are divesting their interests in favor of new frontier areas. With their departure, there exists a great opportunity for Bow Valley to acquire producing assets and the Company is proactive in evaluating this opportunity. Bow Valley's strong financial position gives the Company many options to finance an acquisition.

Exploration in the offshore U.K. still has significant upside as illustrated by the 500-million barrel discovery by EnCana Corporation at Buzzard in 2001. Bow Valley participated in two exploration wells in the general vicinity of Buzzard during 2003. Unfortunately these wells were unsuccessful. Exploration requires a long-term commitment and the success of our exploration program cannot be measured by the results of only two wells. Bow Valley is committed to exploration and I believe that the Company's efforts will yield positive results when measured over time.

WESTERN CANADA

Bow Valley's Canadian operations met many challenges in 2003 but we have emerged on a much more solid platform to support future growth. The year began with robust production levels of approximately 3,000 boe/d resulting mostly from flush production from a high deliverability well at Balsam, Alberta. It quickly became apparent that the discovery was a smaller accumulation than originally expected and the production took an immediate decline until the field was fully depleted within six months. This single well also accounted for most of the reserve revisions in western Canada in 2003. Bow Valley attempted to replace the steep declines from the Balsam well with an aggressive western Canadian exploration program during the first quarter of 2003. This effort was modestly successful, but it did not sustain production at previous levels. Drilling operations in western Canada are always curtailed in the second quarter because of spring breakup and the Company resumed its exploration effort in July.

After experiencing the production volatility during the first half of 2003, Bow Valley re-evaluated its exploration strategy and decided to focus on a more moderate risk, diversified program. I am pleased to report that this change in strategy led to new discoveries at Mirage, Rosevear, and Hamelin Creek, Alberta. These discoveries contributed to a significant increase in Canadian production in the second half of the year. After reaching an average of 1,110 boe/d during the third quarter of 2003, Canadian production increased to average 1,376 boe/d in the fourth quarter and production levels have increased again to approximately 1,500 boe/d in March 2004. Equally important to the production gains is the more sustainable asset base that these discoveries represent.

The 2004 exploration program of 25-30 wells in western Canada will be funded by a $15-million capital budget. The exploration program will continue to focus on opportunities similar to those that we established in the second half of 2003 and I commend our Canadian team for the dramatic success they have achieved in a short period of time.

OUTLOOK

The business environment for the oil and gas sector is very positive. Oil prices are high and will likely stay above long-term averages for the foreseeable future. Natural gas prices also appear to have staying power at robust levels. The strong commodity prices are a reflection of a strengthening U.S. economy, increasing Asian demand, low North American commercial inventories, limited excess productive capacity, and a precarious political situation in many areas of the world.

Costs also become an issue in this environment of high commodity prices. One advantage that Bow Valley has in its balanced strategy between Canada and the U.K. is that the Company can redirect capital to areas with the best possible return. Given that we have development projects and acquisition opportunities in the North Sea, we are not forced to compete for acquisitions in the overheated western Canadian market. The Company will continue to be patient, looking for opportunities that give the best possible return on our invested dollars, while at the same time advancing our strategy of becoming a strong, intermediate oil and natural gas producer.

While positioning Bow Valley with this prudent, balanced strategy, we have also protected the Company's financial resources. The financial position of Bow Valley remains healthy and this in turn positions the Company to grasp new opportunities when they present themselves.

GOVERNANCE

All industries, including the oil and gas industry, are currently undergoing a significant reassessment of corporate governance practices. The Canadian oil and gas industry is also subject to the new reserve definitions and disclosure requirements of National Instrument 51-101 "Standards for Disclosure of Oil and Gas Activities".

Bow Valley is implementing new controls and procedures to safeguard the integrity of our reporting practices and continuous disclosure requirements. The Company has always been a leader in its reporting practices and conservative in its financial reporting.

We believe the new effort by security regulators to ensure best practices is good for industry and also for capital markets and we intend on meeting or exceeding these standards. I believe this effort involves more than just providing controls and procedures. Bow Valley has always made an effort to create a corporate culture that represents integrity, honesty, and respect; a culture that emphasizes support for our community and protection of the environment with as much rigor as in finding corporate profits. We shall continue our efforts to be amongst the best corporate citizens.

ACKNOWL

The past year presented many challenges for Bow Valley and the Company reacted with strong commitment. I believe that Bow Valley has emerged as a much stronger entity from its efforts. We have greatly improved the depth of the management team with several additions: Matt Janisch joined as Vice President, Finance and Chief Financial Officer; Nick Fairbrother, as Director, International Business Development; and Tom Ruissen, as Vice President, Exploration. All three of these individuals previously held senior positions at other companies and they bring a wealth of experience to Bow Valley. Their arrival at Bow Valley is also indicative of their confidence in the Company's identified opportunities and in our ability to execute on our business plan.

I would like to thank all of our highly-skilled employees and consultants for their dedication and effort over the past year. The Board of Directors has provided invaluable oversight and counsel during a time when new corporate governance issues and reporting changes have presented additional demands on the Company. I believe that working together, we will continue to build a successful oil and natural gas company, balanced in its strategy, and focused on a long-term vision.

Robert G. Moffat
President and Chief Executive Officer
March 22, 2004

Answer

y March 2004 to discuss the strategy and vision for the
t, President, Chief Executive Officer and Director; Matt
Financial Officer; John Essex, Vice President, Operations;
Tom Ruissen, Vice President, Exploration; and Nick
evelopment.

Rob: Exploration is more difficult than acquiring reserves but we believe that at the end of the day it provides greater growth potential. Any company can buy reserves, but it requires a different skill set to be successful adding reserves through exploration. I believe Bow Valley has those skills. Ultimately, Bow Valley is an exploration company and that is what will differentiate us from other oil and gas producers.

Bow Valley has adopted a geographic strategy that focuses on exploration and production in the Western Canada Sedimentary Basin and the U.K. North Sea. Why this dual focus?

Rob: Canada and the U.K. are equally important to our business plan. First, the mix is complementary from a timeline perspective. Our Canadian program is intended to provide quarterly or year-over-year growth; executing the U.K. strategy will take longer. We have four development projects in the U.K. North Sea but we're not expecting the next incremental barrel to come out of one of those projects until 2006. Second, the two regions provide a complementary balance between oil and natural gas, with the U.K. being mostly light oil exposure and Canada mostly natural gas. Third, the balance gives us more flexibility in making our capital allocation decisions. Last, we believe the strategy is complementary in balancing the risk profile, pursuing a more reliable, predictable full-cycle exploration model in Canada and a higher risk but bigger upside from U.K. exploration prospects.

What is Bow Valley's acquisition strategy and does it differ between the U.K. and Canada?

Rob: We are looking for acquisitions that are accretive to the Company. We think there are better opportunities for accretive acquisitions in the U.K., so that's where we are focusing most of our attention at present. Canada is currently very competitive. This competition has inflated the cost of acquisitions, which makes it difficult to compete and still generate economic returns.

Matt: This point illustrates another strength of our balanced strategy. Being in both Canada and the U.K. gives us more flexibility and choice.

While we aren't focusing on acquisitions in Canada, if we identify an opportunity that is accretive to what we are doing, we will look at it. Canadian acquisitions make sense for us if there is a strong undeveloped land position and exploration opportunities to add production at a significantly improved economic rate. That's what we've been doing in Canada over the last six months – we've been adding production at less than $15,000 per producing barrel per day, which is very good. If we can find an opportunity that allows us to continue adding production at that rate, we'll pursue it, but we don't feel forced to compete for acquisitions in Canada. In the meantime, there are a lot of acquisition opportunities in the U.K. which the Company intends to pursue.

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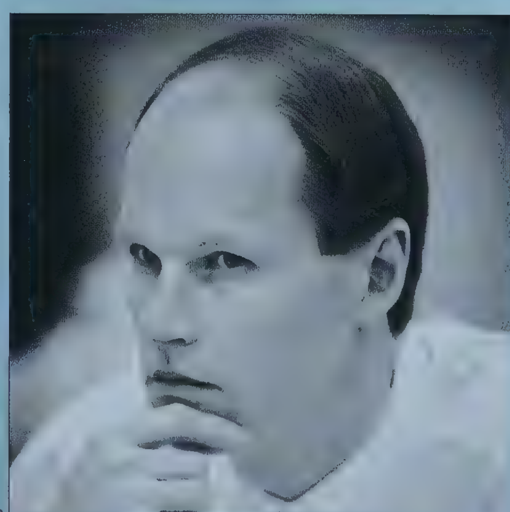
How [illegible] less [illegible]

Tom: It's a combination of expertise and focus. We are focused on a geographic corridor that extends from west-central Alberta up through the Peace River Arch region and into northeastern B.C. This is a natural-gas prone area that fits with our strategy of pursuing properties with multi-zone targets, follow-up opportunities, moderate drilling depths and moderate risk. Our technical team has considerable experience in this corridor, so we understand the plays and the opportunities they present.

John: There are a couple of other factors. As a small company, we can make decisions and react quickly. I can think of several examples where we have been quick to assess an opportunity and then negotiate a deal ahead of our competitors.



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I also think we have a competitive cost structure compared to a lot of companies, particularly the large intermediate and senior integrated companies. We spend less capital to get the same job done. Even amongst our peer group, I believe our cost competitiveness would rank us as a top quartile company.

ortunities

Tom: Our main competitors are the U.S. independent oil companies and the royalty trusts. Both are more interested in exploitation than active exploration, which means land is available to us through joint ventures, farm-ins, and land purchases. As an exploration company, we are also strongly positioned relative to the other junior oil and gas companies whose business models are 'acquire and exploit' but have now found themselves in direct competition with the royalty trusts. From a staffing point of view, we are heavily weighted to exploration, so we're ahead of the game.

Another strength is our focus on natural gas. It's no secret that over the foreseeable future natural gas prices are expected to be strong. As a result of this pricing environment and our cost competitiveness, some of the reserves and production that previously had been shunned by industry players are now very economic.

We have only been in this corridor since August 2002, yet we already have some nice development projects under way and we're actively establishing core areas. One of the things that we're looking for is access to longer reserve life targets. We're trying to establish a baseline foundation off of which we can grow and we believe those more moderate depths, moderate risk targets provide that.

There is also potential for us to partner with Canadian royalty trusts. They have been actively acquiring properties in western Canada, but trusts by nature are non-explorers so there could be opportunities for Bow Valley to partner with them to exploit any undeveloped land they have picked up.

John: The fact that we are able to add production at less than $15,000 per producing boe in Canada and execute projects quickly could make Bow Valley a preferred partner for some of the royalty trusts. It gives us a competitive advantage.

What are Bow Valley's challenges and opportunities in the U.K. North Sea?

Dave: Historically, the large multinational companies have been the operators of these fields and they have been very slow to develop them. That is changing. The majors are starting to move away from the North Sea much the same as they have in Canada over the past 20 years. As a result, the operatorship of our fields has changed over to a new group of owners and operators who are similar to Bow Valley in terms of their cost structure and their aggressive approach to development.

Nick: The majors are divesting some of their assets in the North Sea; however, they still own and control 90% of the production and best acreage, so their departure is an evolutionary process. They're continuing to harvest the revenue and profit from the discoveries they've made in the past. What they aren't doing is a lot of new exploration because they can get more impact in other parts of the world. That is opening opportunities for companies like Bow Valley and this will continue.

Dave: The North Sea has a lot of life left in it. A good example is EnCana's discovery at Buzzard, which is near our Ettrick field. Buzzard is a 400-500 million barrel discovery, the largest discovery in the past 25 years in the U.K.

Nick: In a sense, Buzzard represents a second wave of exploration that is occurring in the U.K. As the majors release more properties, we have a very strong expectation that more large fields will be found. They are going to be more difficult to find and higher risk but they are an opportunity all the same.

John: The companies that are coming in behind the majors are the next generation of junior or intermediate companies, like Bow Valley. However, because operations in the offshore can be capital intensive, very few of these companies want to take on a project at 100% interest. One of the things we're trying to do is position ourselves to be a partner of choice with our competitors – strategic alliances with like-minded companies.

Matt: We also see the U.K. as a very good place to do business, which is another reason we are focusing our acquisition effort there. The combination of the U.K.'s fiscal regime and political stability make it one of the best – if not *the* best – places to operate in the world. There is no royalty payable on production. They have introduced 100% deductibility of expenditures irrespective of the nature of the expenditure and so the tax regime is favourable compared to other regions.

Are there [illegible]
Bow Vall[illegible]

Rob: Bow Valley is a junior company with a production base of approximately 2,500 to 3,000 barrels of oil equivalent per day. Given our small size, I think we have to be focused on walking before we can run. We need to execute on the identified business plan that we have in front of us before we go and do something else. Once we have a critical mass, I fully expect that we will be looking in other jurisdictions but not before we can handle it financially, operationally and technically.

What are [illegible]
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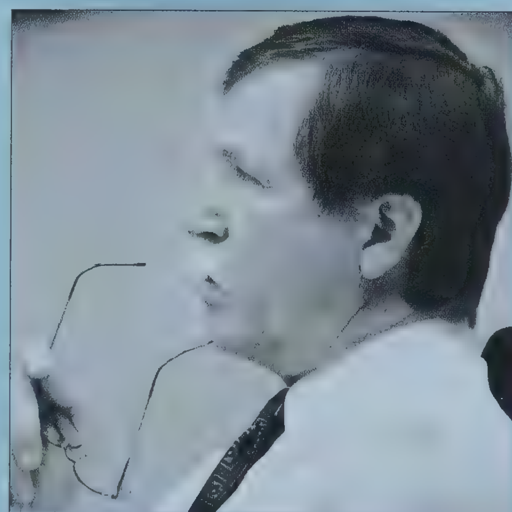
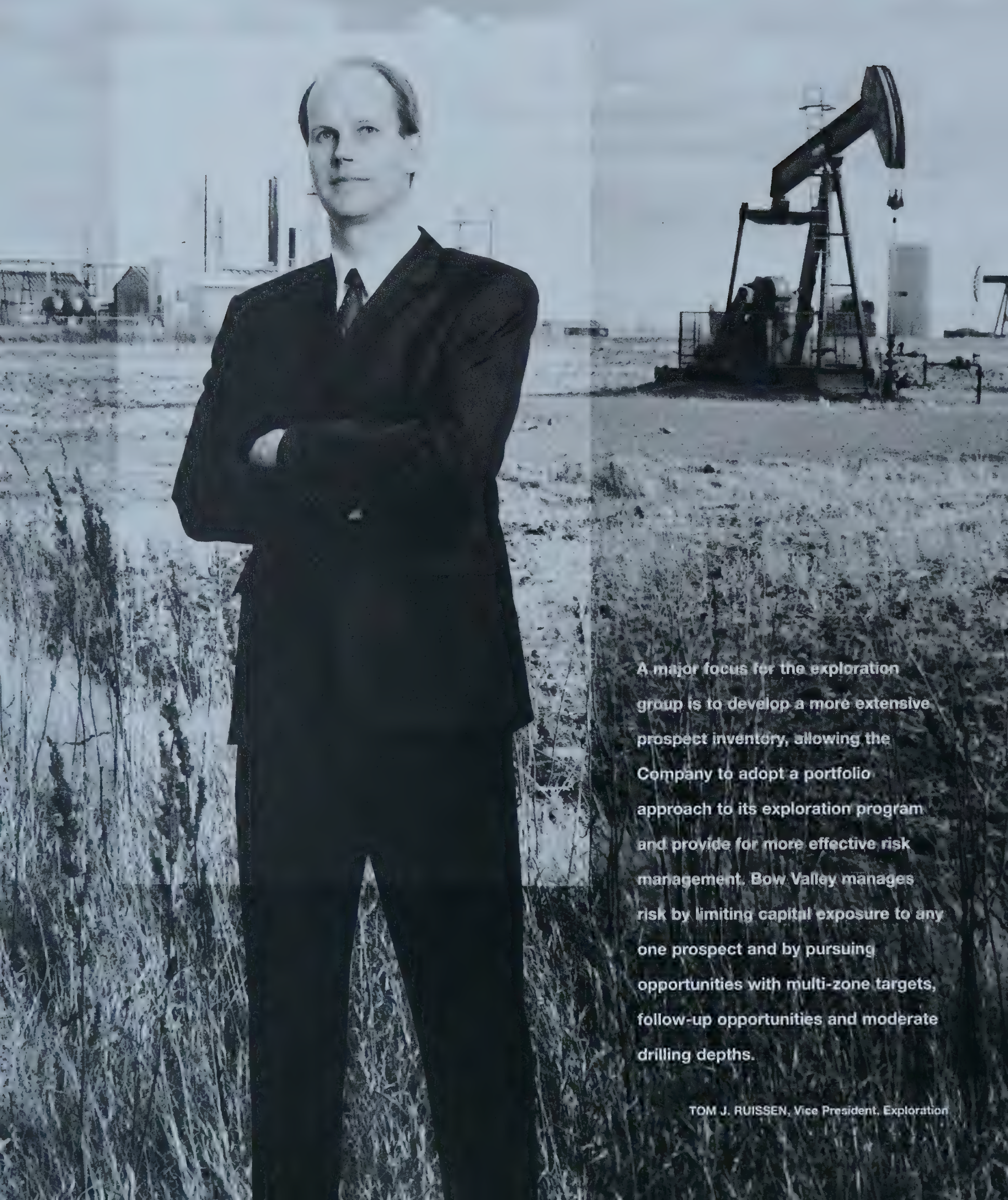
Rob: John was talking earlier about how we're able to evaluate opportunities and make quick decisions. A lot of that comes about because each member of the management team is on the same page with respect to what we are trying to accomplish and what is important in terms of the evaluation of a prospect or acquisition. We understand the need to be profitable. We're not just driven by growth. It has to be accretive and profitable growth. All of us have bought into the larger vision of where we are trying to go with this company – the exploration focus, the exposure to international, the balanced portfolio.

Moreover, each member of our management team has many years of broad experience and is strongly skilled in their particular discipline. This individual strength gives Bow Valley an enviable collective strength and competitive advantage.



REVIEW OF OPERATIONS

Western Canada



A major focus for the exploration group is to develop a more extensive prospect inventory, allowing the Company to adopt a portfolio approach to its exploration program and provide for more effective risk management. Bow Valley manages risk by limiting capital exposure to any one prospect and by pursuing opportunities with multi-zone targets, follow-up opportunities and moderate drilling depths.

TOM J. RUISSEN, Vice President, Exploration

OVERVIEW

Bow Valley's western Canadian strategy is strongly weighted toward exploration and reflects our belief that the best added value will come from drilling and finding new reserves. This is especially true in a highly competitive market where acquisitions have become increasingly expensive. The "acquire and exploit" strategy that tends to emphasize acquisitions is not efficient in the high price environment that exists today in western Canada. Bow Valley has assembled a talented exploration team with a skill set and knowledge base in western Canada that should enable the Company to capitalize on this changing focus toward exploration.

Bow Valley's exploration program emphasizes natural gas exploration and development in a corridor extending from west central Alberta, through the Peace River Arch area and into northeastern British Columbia. This corridor provides multi-zone potential with good prospect diversification, variable risk profiles, available land and accessible infrastructure.

The 2004 exploration program in western Canada will be funded with a $15-million capital budget that will finance participation in drilling 25-30 wells during the year. The exploration profile will continue along the lines established in the second half of 2003, which delivered good reserve and production additions and attractive economic returns.

2003 HIGH

- 2003 average production of 1,525 boe/d increased 114% over 2002 average annual production and 36% over production at the time of acquiring Canadian operations in the third quarter of 2002.
- Canadian total proved plus probable reserves additions (discoveries plus extensions) prior to revisions replaced 205% of production. A negative reserve revision, mostly attributable to the Balsam property, did impact the Canadian year-over-year reserves.
- Tom Ruissen joined Bow Valley as Vice President, Exploration. The Company added two geologists and one geophysicist to build a stronger exploration team.

Bow Valley operated 16 of the 20 wells drilled (13.4 net) plus two re-entries, more than doubling the Company's operated drilling activity from 2002. This activity resulted in 14 (10.3 net) wells completed for natural gas for a success rate of 64% (69% net).

The Company increased its undeveloped land inventory by 18% to 78,632 (45,171 net) acres of petroleum and natural gas leases, compared to 65,139 (38,338 net) acres at year-end 2002. The Company acquired land through a combination of purchases at Alberta crown land sales and farm-in initiatives.

Bow Valley has established a seismic data base of 12,116 km (7,529 miles) of 2-D seismic and 1,019 sq km (398 sq miles) of 3-D data.

The Company maintained a competitive advantage on capital projects by focusing on superior cost performance and short timelines.

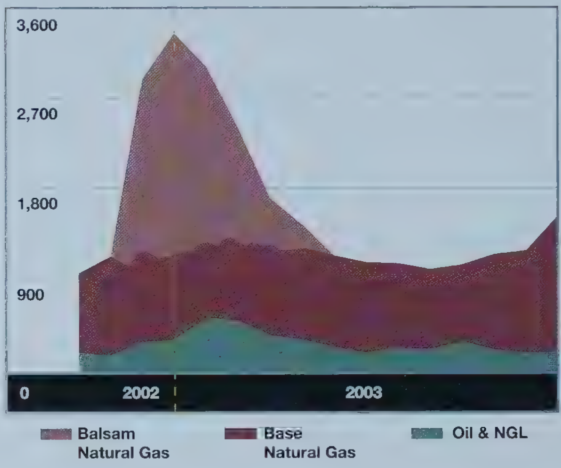
Production additions from new discoveries at Mirage, Rosevear and Hamelin Creek, Alberta bolstered Canadian production from an average of 1,110 boe/d during the third quarter to rates of approximately 1,500 boe/d in March 2004.

Bow Valley's renewed full-cycle exploration business plan has resulted in a more diversified portfolio of producing assets compared to that which previously existed.

Bow Valley entered the 2003 year with a major challenge related to managing its growth of production and reserves. Late in 2002, the Company made a natural gas discovery at Balsam, Alberta. The initial production from this well was approximately 15 (9.4 net) mmcf/d and 225 (141 net) bbl/d of natural gas liquids, representing approximately 63% of the Company's western Canadian production. It became apparent that the discovery was more modest in size than initially estimated. This fact, coupled with competitive drainage on offset lands, resulted in steep production declines and depletion of the pool within six months. Bow Valley attempted to replace its declining production at Balsam with an aggressive western Canadian exploration program during the first quarter of 2003. This effort was modestly successful but fell short of replacing the steep declines at Balsam. Drilling operations in western Canada are always curtailed in the second quarter because of spring break-up and the Company did not resume its exploration effort until July.

With the addition and then the subsequent decline of production from the Balsam discovery, Bow Valley's production in western Canada peaked at approximately 3,000 boe/d during the fourth quarter 2002 and dropped to an average of 1,110 boe/d in the third quarter 2003. After experiencing this dramatic volatility in production volumes, the Company re-evaluated its exploration strategy and decided to focus on prospects with a more moderate risk, multi-zone potential that would result in a more predictable and reliable production and reserves growth.

Canadian Production
(boe/d)



The Company also reorganized its exploration group. The Company hired Tom Ruissen as Vice President, Exploration, and in early 2004 added two geologists and a geophysicist to the exploration team. A major focus for the exploration group is to develop a more extensive prospect inventory, allowing the Company to adopt a portfolio approach to its exploration program and provide for more effective risk management. Bow Valley manages risk by limiting capital exposure to any one prospect and by pursuing opportunities with multi-zone targets, follow-up opportunities and moderate drilling depths.

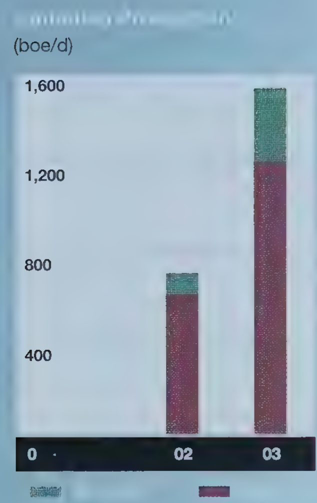
This shift in strategy led to new pool discoveries at Mirage, Rosevear, and Hamelin Creek, Alberta. These discoveries contributed to a significant increase in Canadian production in the second half of the year. Canadian production increased to average 1,376 boe/d in the fourth quarter and production levels in March 2004 have increased again to approximately 1,500 boe/d. Equally important to the production gains is the more reliable and sustainable asset base that these discoveries represent.

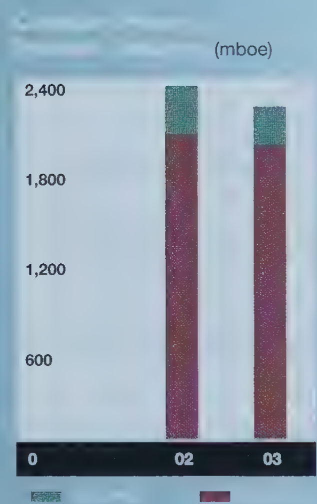
The Company's 2003 results reflect the outcome of a two-part exploration strategy: full-cycle exploration and reduced-cycle exploration (farm-ins and joint ventures).

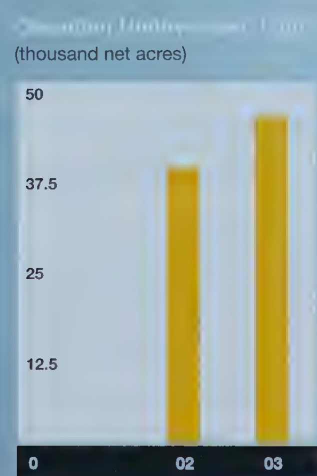
In full-cycle exploration, the Company combines geological and geophysical mapping with engineering data to develop a prospect or drillable location on crown lands that are posted for sale and can be purchased.

Full-cycle exploration also involves the use of Bow Valley's significant seismic database (12,116 line km of 2-D seismic and 1,019 sq km of 3-D seismic), purchase of seismic trade data, or acquisition of new proprietary seismic data in order to firm up and mitigate the risk of drilling prospects. For example, during the fourth quarter of 2003, Bow Valley acquired 48 line km of new seismic data with the objective of firming up six or seven potential drilling locations.

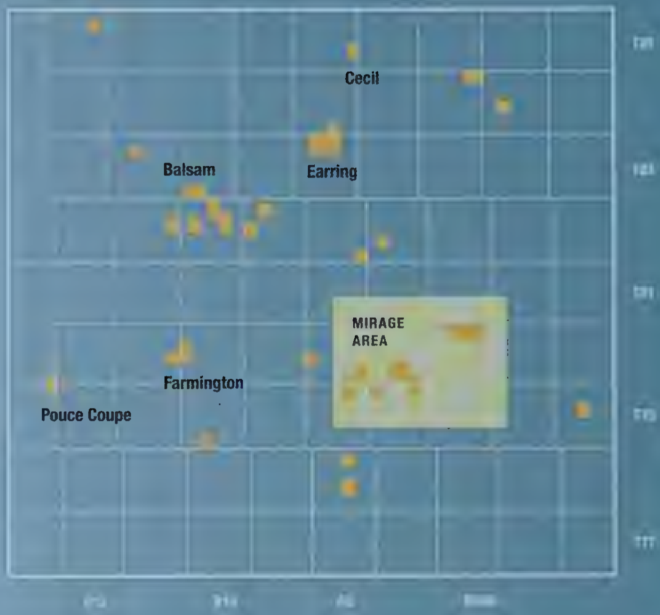
With reduced-cycle exploration, we aim to reduce the time from first capital expenditure to first production and cash flow. We can achieve this shorter time frame through farm-ins or joint ventures with industry partners in which Bow Valley can access other operators' lands and often times utilize partner-owned seismic data in order to assess and potentially commit capital to a prospect location.





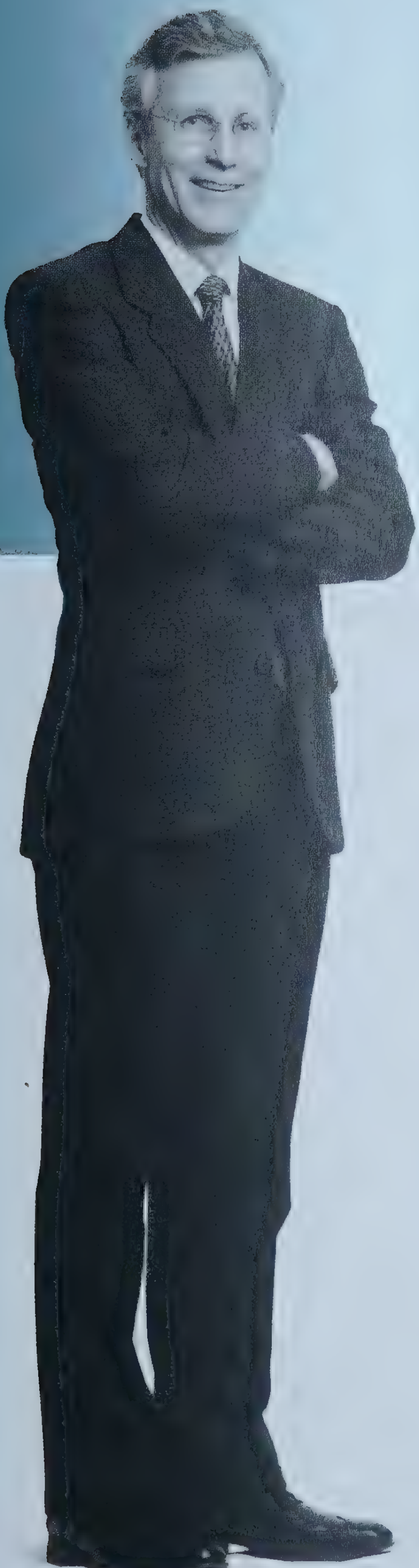


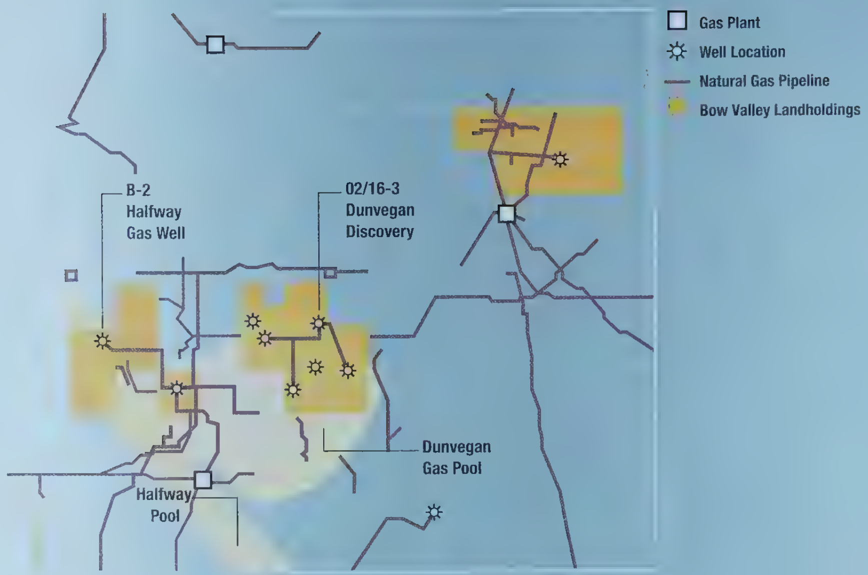
NORTH AMERICA: EXPLORATION & PRODUCTION



Name **Description** (working interest)	2003 Activity	2003 Year-End Net Production (% natural gas)	2004 Planned Activity
Mirage (15-100%) – A Dunvegan exploration success turned this area into a major growth area for 2003 – Bow Valley now has five (3.9 net) Dunvegan producers on-stream, contributing 1.8 mmcf/d (net) – A deeper exploration success in the area led to two (0.65 net) producers on stream at year end, contributing 1.3 mmcf/d (net)	– Drilled nine (5.5 net) wells – Constructed facilities – Brought production on-stream	– 520 boe/d (99%)	– Continued exploration and development of deeper play – Land acquisition to expand play
Rosevear (60-100%) – New exploration area in 2003 – drilled two (2.0 net) deep tests – First well was on production by year end; second well on production April 2004	– Drilled two (2.0 net) wells – Brought production on stream	– 170 boe/d (100%)	– Bring second well on-stream – Further exploration for multi-zone potential
Highvale (25-85%) – Bow Valley produces liquids rich natural gas from multiple zones in this area – Facilities provide fee income	– Installed field compression to optimize production – Recompleted one (0.85 net) well	– 360 boe/d (65%)	– Shallow zone development – Pursue recompletion opportunities
Gilby (9-100%) – Bow Valley produces liquids rich natural gas primarily from the Glauconitic zone	– Completed one (1.0 net) re-entry – Tied-in two (2.0 net) wells	– 210 boe/d (87%)	– Pursue farm-in opportunities and crown land acquisition

CASE STUDY MIRAGE





As part of the development in the area, Bow Valley participated in building two (one operated) field compressor stations in 2003. The Company expects a third operated station to be on-line in the first quarter of 2004. These compressor stations will help give Bow Valley some measure of control of the field operations in an otherwise competitive situation.

Bow Valley exploration efforts in adjacent areas will target expansion of these play types.

The Mirage field demonstrates the successful full-cycle business model that Bow Valley is employing in western Canada. The Company built an exploration concept, and then negotiated the farm-in on six sections of land with a two-well commitment. The Company acquired additional seismic data and drilled the discovery well with no partners. The early knowledge of the details behind the discovery gave Bow Valley a competitive advantage in negotiating further land deals and Mirage has become a core area for the Company. Bow Valley has added production and reserves in this area at less than $15,000 per boe/d and $10 per boe of reserves, both figures well below the cost of acquiring production in western Canada.

Rosevear

Like Mirage, the Rosevear field was a new exploration area for the Company in 2003. Bow Valley drilled two (2.0 net) successful natural gas wells to depths exceeding 2,300 metres. The first of these wells was put into production in late 2003 at approximately one mmcf/d and the second well is scheduled to commence production at the end of March 2004. The Company participated at crown land sales to acquire additional land in the area and it has continuing drilling plans in 2004. Bow Valley expects that this area could become a new core property for the Company in the future.

Gilby

Bow Valley completed one (1.0 net) successful natural gas re-entry and tied-in two wells in this field in 2003. The Company has identified further drilling and acquisition opportunities in the area. However there are two competitive challenges: tightly-held land and the presence of large U.S.-based players. This is a difficult area to assemble a land inventory to support the exploration effort and future activity will be dependent on negotiating farm-in opportunities. Bow Valley's competitive advantage is our low cost structure and ability to react quickly to opportunities as they present themselves.

Highvale

Highvale, Alberta is a mature natural gas property, which produced 435 boe/d (1.6 mmcf/d of natural gas and 162 bbl/d of natural gas liquids) during 2003. The Company installed field compression in the first quarter of 2003, thus both optimizing production from the Company's key natural gas wells and establishing a source of significant fee income. There remains an unexploited shallow gas zone in the area but development has been delayed due to infrastructure capacity limitations at non-operated facilities. This issue should correct itself in 2004 and the Company will pursue a low risk development program.

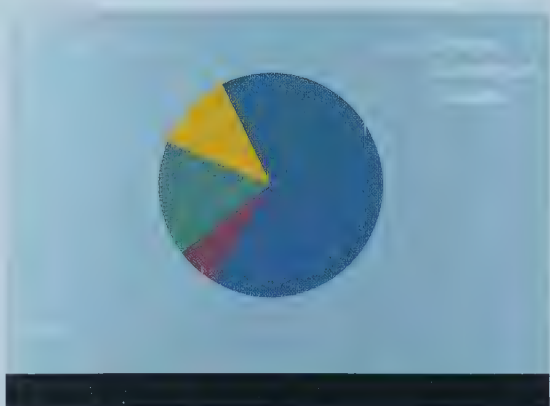
Balsam

Bow Valley has identified additional exploitation and exploration opportunities in the Balsam area that it will pursue in 2004. The Company owns pipeline infrastructure in the area that is generating third-party revenue of approximately $300,000 per year.

In 2004, Bow Valley will continue to apply the successful strategies it initiated in 2003, with an additional focus on core area development.

Bow Valley has budgeted a $15-million capital program in western Canada and plans to drill 25 – 30 wells, approximately 80% of which will be of the more moderate risk/moderate reward variety.

2004 Capital Budget
(%)



REVIEW OF OPERATIONS

U.K. North Sea

Bow Valley continues to pursue and cultivate its role as one of the emerging North Sea independents. The pace and quality of acquisition and divestment opportunities picked up during 2003, with some very significant transfers in ownership from the Super Majors to independent operators, including assets in blocks in which Bow Valley is participating.

DAVID A. FLEMING, Vice President, International

OVERVIEW

Bow Valley sees the competitive environment in the North Sea as similar to that of western Canada 25 years ago. 'Super Major' integrated oil companies continue to own the majority of reserves and exploration licences in the area but have dramatically reduced exploration as the basin has matured. Over the years a significant number of smaller pools have been discovered but many have remained undeveloped because they didn't meet the commercial hurdles of, and are not material to, these larger producers.

There are still many areas that have not been fully explored because the remaining exploration prospects are not as large as initial discoveries in the area. As a result, a new breed of independent North Sea producer is emerging. These independents are willing to purchase the more mature producing fields to harvest the tail-end reserves and the smaller assets from the Super Majors and are able to operate them at lower cost and greater profitably. In addition, significant exploration opportunity still exists for these independent operators for both smaller pool sizes (50 million barrels of recoverable oil reserves) up to larger pool sizes (for example, the Buzzard field, discovered in 2001, has been stated to contain in excess of 500 million barrels of recoverable oil reserves). Bow Valley continues to pursue and cultivate its role as one of these new North Sea independents. The pace and quality of acquisition and divestment opportunities picked up during 2003, with some very significant transfers in ownership from the Super Majors to independent operators, including assets in blocks in which Bow Valley is participating. New operators have stepped in to redevelop some previously decommissioned and abandoned fields to capture incremental reserves left behind. There was a large response to the 21st U.K. Offshore Licensing Round in 2003, resulting in an increased number of traditional licences being awarded and a host of new promote licences being granted. Exploration drilling picked up somewhat during the year and some exploration success was announced, indicating that the North Sea still offers attractive exploration targets.

2003 HIGH

- Bow Valley appointed Nick Fairbrother as Director, International Business Development for Bow Valley Petroleum (UK) Limited.
- Bow Valley maintained net production from the Kyle field averaging 1,652 boe/d in 2003, compared to 1,698 boe/d in 2002.

Bow Valley added to its working interest in the Chestnut field in the North Sea, acquiring an additional 6.25% to bring the total to 15.125%. Operatorship of Chestnut was taken over by Venture Production.

Paladin Resources assumed operatorship of the Blane and Enoch fields in early 2004.

EnCana assumed operatorship of the Ettrick field.

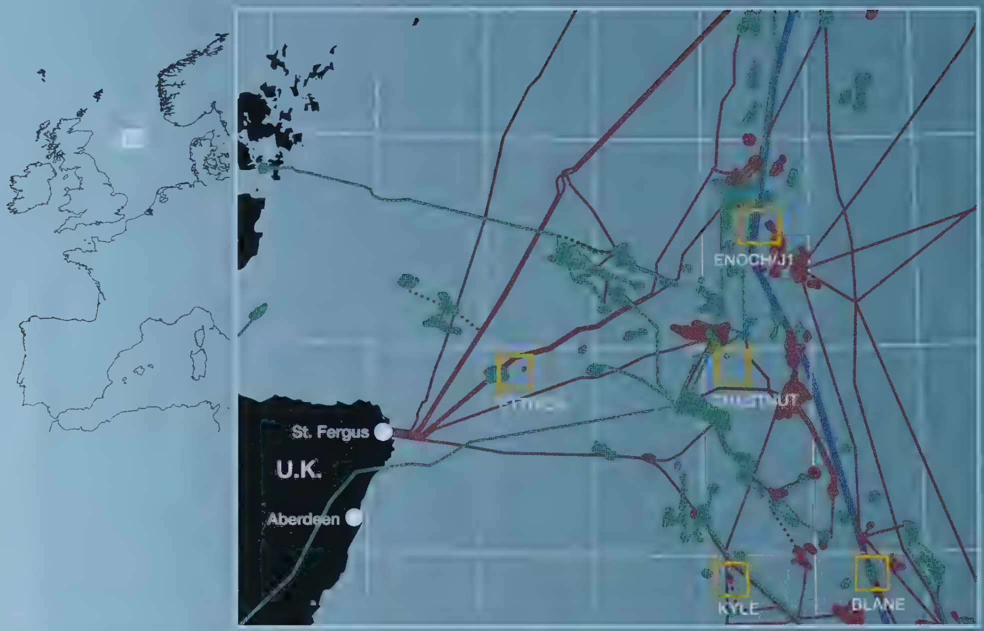
Evaluation of alternatives was undertaken during the year to extend the life of the Kyle field beyond the current Floating Production, Storage and Offloading (FPSO) vessel contract and to increase production and recovery.

The Company was active in the asset acquisition market in 2003, adding to our working interest in the Chestnut field and subsequent to year end adding to our working interest in the Ettrick field. Bow Valley evaluated several acquisition opportunities but was unsuccessful in the bids that it made.

Change of operator has occurred at each of Bow Valley's development properties, as outlined in the highlights section. This change in operator has put these projects back on the development agenda.

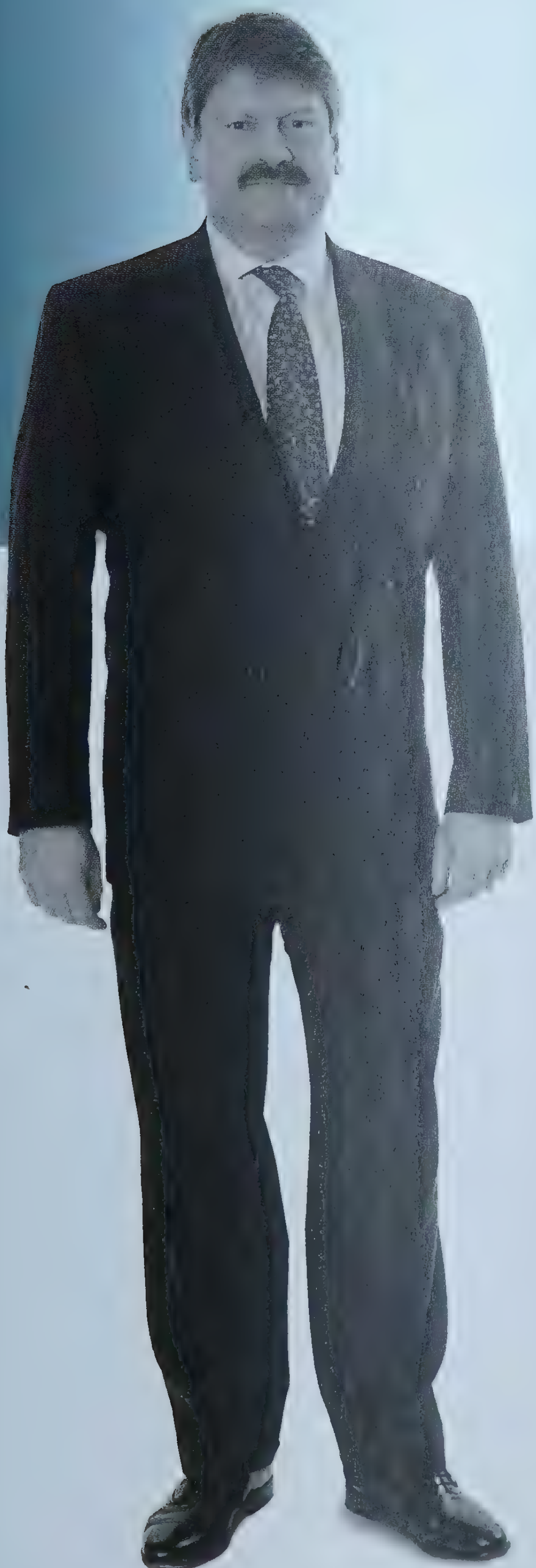
The Company participated in three exploration wells and a large 3-D seismic acquisition program during the year and, consequently, was one of the more active explorers in the U.K. Offshore. Two of the wells were in the vicinity of the Buzzard discovery and were drilled by the end of the year. Unfortunately they were not successful. Drilling of a third well was concluded early in 2004 and was also unsuccessful.

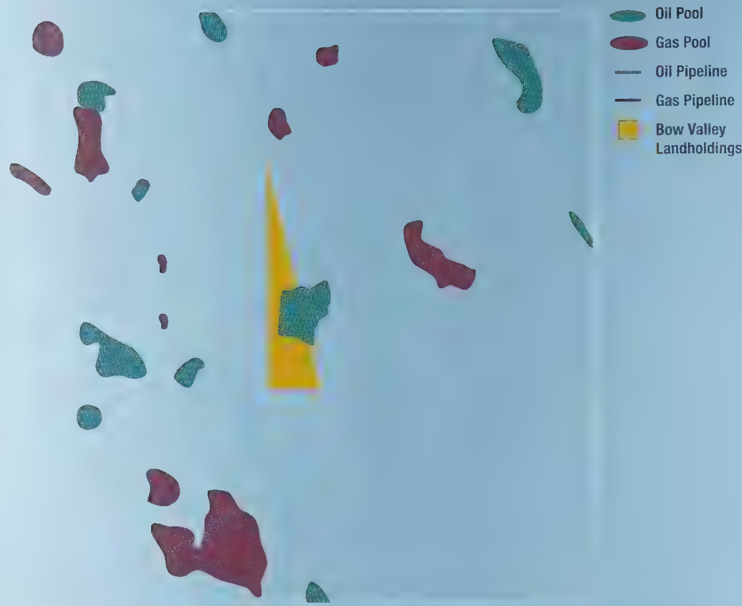
U.K. AND OTHER INTERNATIONAL: EXPLORATION & PRODUCTION

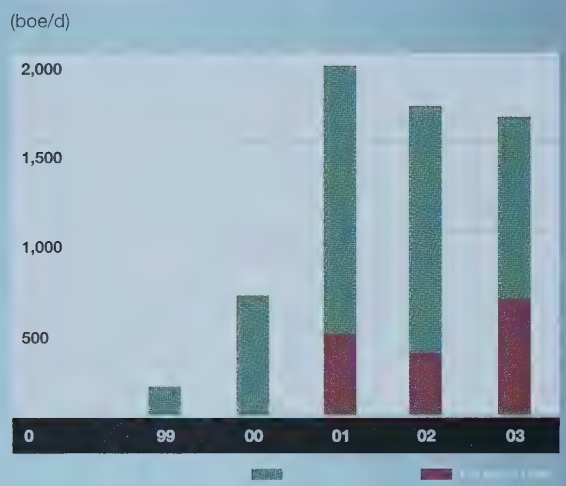


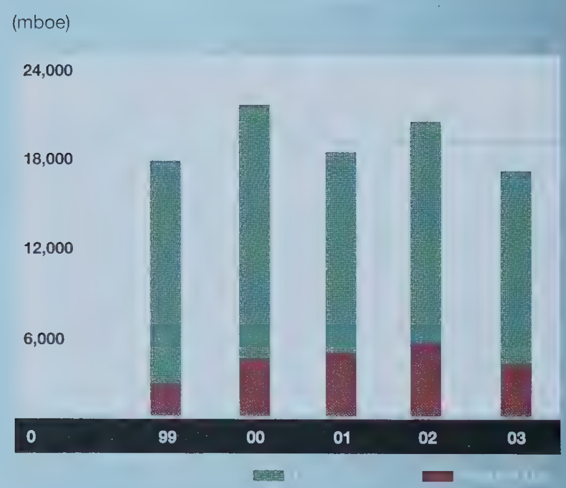
Name **Description** (working interest)	**2003 Activity**	**Net Production**	**2004 Planned Activity**
Kyle (14.29%) – Kyle is Bow Valley's only currently producing field in the North Sea and was brought on production in 2001	– Produced continuously through 2003 – Insurance claims settled from gas export line blockage in 2002 – Alternatives under evaluation to extend producing life	– 1,400 boe/d (net, 2003 year-end)	– Evaluate plans to extend reserve life – new FPSO terms or tie-back to nearby field
Chestnut (15.125%) – Interest acquired in 1997 and 1998 – Production potential of 1,500 boe/d (net)	– Acquired additional 6.25% working interest – Junior North Sea producer acquired operator's interest	– Late 2005 with FPSO development – 2008/2009 if tied-back to nearby infrastructure	– Evaluate stand-alone development versus tie-back to nearby infrastructure
Blane (15.25%)/Enoch (15%) – Interests acquired in 1998 – Production potential of 2,700 boe/d (net) from Blane and 1,300 boe/d (net) from Enoch	– Junior North Sea producer acquired operator's interest (early 2004)	– Late 2006/2007	– Meet with new operator – review plans, set budget – Solidify plans to bring on production
Ettrick (12.00%) – Interest acquired in 1998 – Offsets the Buzzard discovery – Production potential of 3,500 boe/d (net)	– Acquired small additional interest (early 2004)	– 2009	– Further technical evaluation of pool – Evaluation of exploration leads

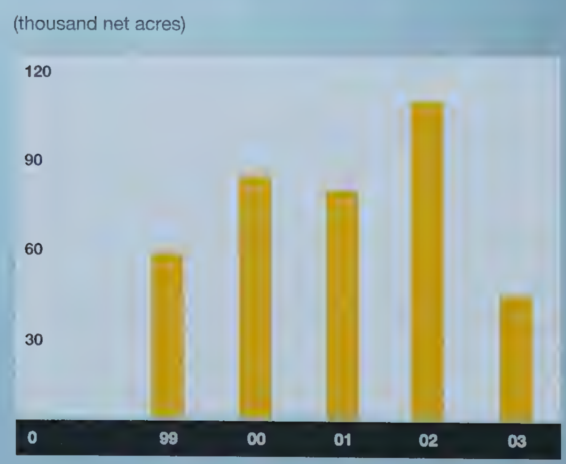
CASE STU **BLANE**











Through an acquisition of an interest in the adjacent block on the Norway side in 2002, Paladin holds the largest interest on both sides of the boundary. This should lead to an alignment of interests of the partners toward field development.

This field could add production of over 2,700 boe/d net to Bow Valley when it is brought on stream, likely in the next three to four years, effectively doubling the Company's current corporate production. Capital required to bring the field on production equates to approximately $17,000 per boe/d and approximately $10.00 per boe of proved plus probable reserves.

Kyle

Bow Valley holds a 14.29% working interest in the Kyle field, which has been producing through a FPSO since April 2001. Production from the field at the end of 2003 was approximately 5,750 bbl/d (820 bbl/d net) of oil and 24.2 mmcf/d (3.5 mmcf/d net) of natural gas. The contract with the owner of the FPSO continues until November 2005 and the Operator along with the co-venturers has been evaluating alternatives for extending the life of the field beyond this time frame. Options being examined include a new agreement for use of the FPSO or tying one or all of the producing wells back to a nearby field. Either of these options would decrease operating costs significantly in addition to extending the field life.

Chestnut

Bow Valley initially acquired its interest in this field in 1997 and 1998. Amerada Hess farmed-in on the block in 2001 and carried out the drilling of an appraisal well and an extended well test, which produced 1.05 million barrels of oil over a five-month period at flow rates of up to 13,500 bbl/d of oil. In 2003, Amerada Hess' interest in Chestnut was acquired by Venture Production, a North Sea independent producer, which assumed the role of operator and immediately began engineering studies and planning for field development. Following the Venture takeover, Bow Valley added to its working interest, acquiring an additional

6.25%, bringing the total to 15.125%. The partners are currently evaluating sub-sea tieback or stand-alone production alternatives for developing the field. Although sub-sea tieback is projected to be more profitable than stand-alone solutions it would delay development until 2008/2009 due to a lack of capacity at facilities in the area. Stand-alone alternatives are still being investigated to determine if development can be accelerated commercially. This field is expected to add at least 1,500 boe/d to Bow Valley's production, which would double the current U.K. production base.

Enoch

In the same transaction in which it purchased an interest and operatorship at Blane, Paladin picked up a large interest and operatorship of the Enoch field. Like Blane, this change in operator removes the main obstacle to development and Bow Valley is confident that Paladin will quickly address a development plan. Further technical evaluation during 2003 supports a slight improvement in previous predictions of recoverable reserves. Infrastructure located close to Enoch is expected to have spare capacity and to provide processing on reasonable terms.

Ettrick

The Ettrick field is located in what has now become one of the most active exploration areas in the U.K. following the discovery of the nearby Buzzard field in 2001.

A consolidation of ownership in 2003 has led to an alignment of interests of the Ettrick field's operating group. Operatorship of the Ettrick field has been assumed by EnCana, which is also the operator for the Buzzard field development. Development of the Buzzard field has been sanctioned and is progressing, leading to major infrastructure being constructed and onstream in proximity to Ettrick by 2007. Bow Valley expects that development of Ettrick will follow shortly thereafter.

Bow Valley is in the process of purchasing an additional interest in one of the Ettrick blocks, which will raise its working interest in the Ettrick field to 12.00%.

During 2003, Bow Valley participated in two exploration wells called Squirrel and Joppa in Block 20/7, adjacent to the blocks where the Ettrick field is located. These wells targeted similar play concepts to the Buzzard discovery. However, both of these wells were unsuccessful. There are several other exploration prospects within the blocks covered by licences that Bow Valley has in the area.

Along with its co-venturers, Bow Valley undertook a large 3-D seismic acquisition program for the area obtained in the 20th Licensing Round. This will provide delineation of a number of other leads seen on this licence. At least two of these leads may become candidates for exploration wells. Three other leads have been identified on adjacent blocks and will be further evaluated during 2004 by reprocessing 3-D seismic with the expectation that additional exploration prospects may be identified.

ONSHORE FRANCE

Bow Valley sold its interest in three licences onshore in the south of England in 2003 but retained an overriding royalty on any future production.

The Company relinquished its remaining licences in France after completing a program of reprocessing seismic, which did not yield any commercial drilling prospects.

Bow Valley will continue to capitalize on its established position as a North Sea independent producer.

Bow Valley has budgeted for a $2.5-million capital program in the North Sea for the sub-sea tieback of one of its Kyle wells. Bow Valley and its partners will continue to evaluate options to optimize Kyle production.

The Company will continue to evaluate acquisition opportunities.

No exploration wells are anticipated in 2004.

MANAGEMENT'S

Discussion and Analysis

This Management's Discussion and Analysis provides details about Bow Valley's full year and fourth quarter 2003 financial results and compares them to the corresponding periods of 2002. In addition, the MD&A outlines the Company's capital program and outlook for 2004.

MATTHEW L. JANISCH, Vice President Finance and Chief Financial Officer

This Management's Discussion and Analysis (MD&A) provides details about Bow Valley's full year and fourth quarter 2003 financial results and compares them to the corresponding periods of 2002. In addition, the MD&A outlines the Company's capital program and outlook for 2004. It should be read in conjunction with the Consolidated Financial Statements. Certain statements throughout this report are forward-looking and are based on information currently available. Actual results will vary and the variations may be significant.

Where amounts are expressed on a barrel of oil equivalent (boe) basis, natural gas volumes have been converted to barrels of oil equivalent at six thousand cubic feet to one barrel of oil equivalent (6 mcf = 1 boe). This conversion ratio is the convention used in the oil and natural gas industry and is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. The use of boes may be misleading, particularly if used in isolation.

All figures are reported in Canadian dollars, unless otherwise stated. Certain figures presented for comparison purposes relating to Canadian operations represented as fourth quarter of 2002 are for the period August 29, 2002 to December 31, 2002. It is management's view that using these figures had a non-material effect on the comparisons. Throughout this MD&A we use the term funds flow from operations. This term does not have a standardized meaning under Canadian generally accepted accounting principles (GAAP) and may not be comparable to other companies. Management believes that funds flow is a useful supplementary measure that may assist investors.

CRITICAL

A summary of significant accounting policies is presented in Note 1. In accounting for oil and gas activities, the Company has a choice between two acceptable accounting policies: full cost and successful efforts. Bow Valley follows the full cost method. The Company has adopted the following new and amended standards for the year ended December 31, 2003:

Full Cost Accounting Guideline – The new Full Cost Accounting Guideline for Oil and Gas Accounting amends the ceiling test calculation and the calculation of depletion.

Asset Retirement Obligations – This new standard requires that the estimated amount of such obligations be added to the cost of properties and be recorded as a liability.

Stock-based Compensation – Companies are required to measure all stock-based compensation using the fair value method of accounting and recognize the result as compensation expense in the financial statements.

CRITICAL

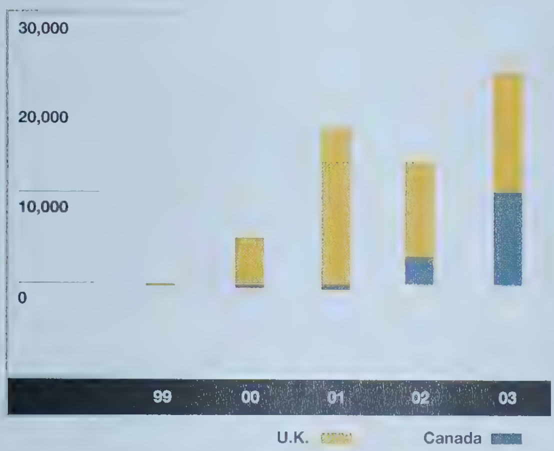
Preparing financial statements in accordance to GAAP requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on our Consolidated Financial Statements and financial position. The estimates of proved and probable reserves is critical to many aspects of the Company's Consolidated Financial Statements, including net income through the calculation of depletion and depreciation, the determination of future abandonment and site restoration, the application of the ceiling test calculation and the test for impairment of goodwill. Management's judgment of fair value is also critical to the cost centre ceiling test and test for impairment of goodwill. The carrying amount of property, plant and equipment, as well as the amount recorded for depletion, depreciation and accretion (DD&A) can be affected by these judgments.

In 2003, Bow Valley made significant progress in many areas of its operations and in pursuit of its long-term strategy, despite challenges encountered throughout the year. The challenges included a decline in production resulting from the unexpected depletion of one of the Company's major Canadian exploration successes and the effects of the new, more conservative reserve definitions arising from the implementation of National Instrument 51-101 "Standards for Disclosure of Oil and Gas Activities" (NI 51-101). On the positive side, the Company's Canadian production was increasing strongly in the last four months of 2003 and into 2004. There were numerous positive developments on our undeveloped properties in the North Sea such as acquiring incremental working interests at Chestnut and Ettrick, as well as the change of operatorship at each of our undeveloped properties over the past 12 to 18 months to companies which are more aligned with Bow Valley's goals and objectives than previous operators. In addition, the Company remains financially strong.

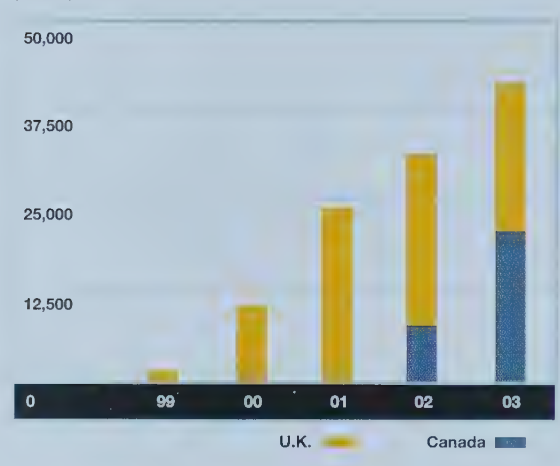
	2003		2002 (restated)		2001 (restated)	
	($000s)	($/boe)	($000s)	($/boe)	($000s)	($/boe)
Net revenue[1]	**38,325**	**33.06**	30,097	34.23	24,486	34.81
Operating expense	**11,709**	**10.10**	12,812	14.57	6,117	8.70
Operating net back	**26,616**	**22.96**	17,285	19.66	18,369	26.11
Other corporate expenses	**2,914**	**2.52**	3,497	3.98	1,713	2.44
Current tax	**70**	**0.06**	175	0.20	11	0.02
Funds flow from operations	**23,632**	**20.38**	13,613	15.48	16,645	23.65
Stock-based compensation	**55**	**0.05**	–	–	–	–
DD&A	**20,717**	**17.87**	10,679	12.14	32,969	46.32
Future income taxes (recovery)	**(989)**	**(0.85)**	(1,669)	(1.90)	–	–
Total non-cash expenses	**19,783**	**17.07**	9,010	10.24	32,969	46.32
Net income	**3,849**	**3.31**	4,603	5.24	(16,324)	(22.67)
Net income						
Per unit (basic and diluted)	**$ 0.06**		$ 0.09		$ (0.41)	
Funds flow from operations						
Per unit (basic)	**$ 0.38**		$ 0.27		$ 0.42	
Per unit (diluted)	**$ 0.37**		$ 0.27		$ 0.40	
Total assets	**90,463**		85,144		38,293	
Debt and working capital (deficit)	**(2,829)**		(4,850)		9,151	

(1) Net revenue includes operating revenue (net of royalties) plus interest and other revenue.

Funds Flow from Operations
($000s)



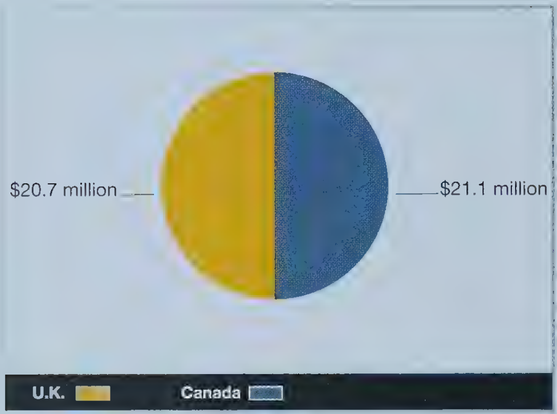
Net Revenue
($000s)



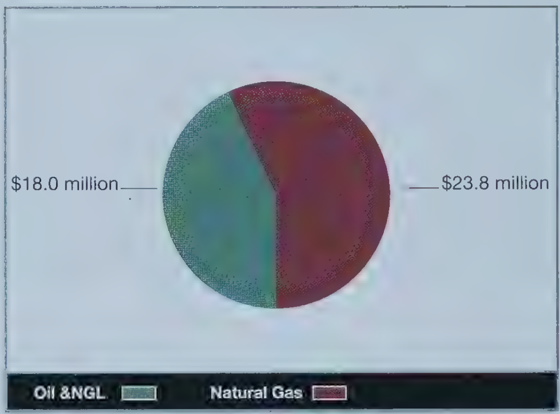
	Net Revenues ($000s)	Net Income (Loss) ($000s)	Net Income (Loss) Per Share Basic and Diluted ($)
2003			
First quarter	**14,617**	**3,698**	**0.06**
Second quarter	**9,511**	**2,855**	**0.05**
Third quarter	**7,109**	**(751)**	**(0.01)**
Fourth quarter	**7,088**	**(1,953)**	**(0.03)**
Total	**38,325**	**3,849**	**0.06**
2002			
First quarter	4,976	614	0.01
Second quarter	609	(3,958)	(0.08)
Third quarter	10,886	3,112	0.06
Fourth quarter	13,626	4,835	0.08
Total	30,097	4,603	0.09

Bow Valley maintains a balance in its revenue profile between geographic regions (Canada/U.K.) and between major products (oil/natural gas). The Company generates the majority of its oil and liquids revenue from the North Sea and the majority of its natural gas revenue from western Canada. In 2003, the overall mix of revenue was 50% U.K. and 50% Canada, and 42% oil and 58% natural gas. This balance allows the Company to make better capital allocation decisions and allows more flexibility in near-term spending. To reflect this balance, this MD&A focuses on each region separately and then discusses corporate expenses.

2003 Revenue by Country
(%)



2003 Revenue by Product
(%)



The following discussion applies to the Canadian reserves only. Discussion regarding the Company's U.K. reserves can be found in the U.K. section of this MD&A, on page 39.

Reserves

Bow Valley has updated its Canadian reserves as of December 31, 2003, to be compliant with NI 51-101. Under NI 51-101, the most likely case is based on proved plus probable reserves. The required probability is that the actual volumes eventually recovered will equal or exceed the estimate at least 50% of the time. This proved plus probable case is most comparable to previous years' "established" reserves (which were typically defined as proved plus one-half of probable reserves) and the tables in this MD&A are presented as such. Proved reserves are now based on a 90% confidence level, that is, the actual volume recovered will meet or exceed the indicated Company reserves 90% of the time.

The new standard is generally thought to provide for a greater level of consistency in the evaluation and reporting of reserves in Canada than was the case in previous years. Bow Valley's Reserve Committee met with the independent engineers and has reviewed the reserves report. We present the summary information on the next page. The Company will provide additional information in its Annual Information Form (AIF) and other annual filings.

Canadian Reserves (Forecast Pricing)

	Gas	Oil	NGL	boe
Total proved	(mmcf)	(mbbl)	(mbbl)	(mboe)
January 1, 2003 opening[1]	9,589	26	227	1,850
Revisions	(4,124)	8	(9)	(688)
Economic factors	(151)	–	(4)	(29)
Drilling discoveries	2,899	–	53	536
Drilling extensions	2,490	–	7	422
Acquisitions	–	–	–	–
Divestitures	–	–	–	–
Production	(2,625)	(17)	(102)	(556)
December 31, 2003 closing	**8,078**	**17**	**172**	**1,535**
Total proved plus probable				
January 1, 2003 opening[1][2]	10,829	27	264	2,096
Revisions	(3,433)	13	3	(556)
Economic factors	(151)	–	(4)	(29)
Drilling discoveries	3,402	–	60	627
Drilling extensions	3,017	–	9	511
Acquisitions	–	–	–	–
Divestitures	–	–	–	–
Production	(2,625)	(17)	(102)	(556)
December 31, 2003 closing	**11,039**	**23**	**230**	**2,093**

(1) The January 1, 2003 reserves report included royalty interest ownership and for comparative purposes this table has presented that report to conform to the December 31, 2003 presentation. The difference is not material.

(2) This table has presented the January 1, 2003 reserves report to compare established (proved plus one-half probable) reserves to proved plus probable reserves in the December 31, 2003 reserves report, reflecting the difference in the risk applied to these reserves as a result of NI 51-101.

Total proved plus probable reserves were essentially flat year-over-year, as discoveries and extensions of 1.1 mmboe were offset by revisions of 0.6 mmboe and production of slightly under 0.6 mmboe. Total proved reserves declined by 17% due to technical revisions of 0.7 mmboe offsetting discoveries and extensions of 1.0 mmboe. Revisions occurred at the Company's Balsam, Highvale and Gilby fields, while discoveries and extensions occurred at the Company's new discovery fields of Mirage and Rosevear. The revisions at Balsam and Highvale are due to production performance and at Gilby are due to the change in reserves definitions under NI 51-101.

Total additions (discoveries plus extensions) replaced 205% of production on a proved plus probable basis (172% – proved).

Canadian Revenue & Funds Flow

Certain figures presented in the following tables as 2002 represent only the period after the acquisition of Boundary Creek Resources Ltd., on August 29, 2002 (as the Company had no Canadian operations prior to the acquisition) and therefore year-over-year percentage changes may be misleading.

	2003		2002		% Change	
	($000s)	($/boe)	($000s)	($/boe)	($000s)	($/boe)
Operating revenue	**21,057**	**37.85**	7,974	30.74	164	23
Interest and other	**14**	**0.02**	98	0.38	(86)	(95)
Royalties	**(5,215)**	**(9.37)**	(1,624)	(6.26)	221	50
Net revenue	**15,856**	**28.50**	6,448	24.86	146	15
Operating costs	**3,491**	**6.28**	999	3.85	249	63
Operating netback	**12,365**	**22.22**	5,449	21.01	127	6
General and administrative costs	**1,820**	**3.27**	2,058	7.94	(12)	(59)
Interest expense	**123**	**0.22**	59	0.23	108	(4)
Foreign exchange loss (gain)	**68**	**0.12**	36	0.14	89	(14)
Current income taxes	**70**	**0.13**	175	0.67	(60)	(81)
Total cash expenses	**2,081**	**3.74**	2,328	8.98	(11)	(58)
Funds flow from operations	**10,284**	**18.48**	3,121	12.03	230	54
Net income	**(1,115)**	**(2.00)**	701	2.70	(159)	(74)

	Q4/03		Q4/02		% Change	
	($000s)	($/boe)	($000s)	($/boe)	($000s)	($/boe)
Operating revenue	4,517	35.67	7,504	33.22	(40)	7
Interest and other	(4)	(0.04)	1	0.12	(115)	(133)
Royalties	(1,622)	(12.80)	(1,375)	(6.09)	18	110
Net revenue	2,891	22.83	6,130	27.25	(53)	(16)
Operating costs	978	7.73	910	4.03	7	92
Operating netback	1,913	15.10	5,220	23.22	(64)	(35)
General and administrative costs	325	2.57	470	2.08	(31)	24
Interest expense	91	0.72	43	0.19	112	279
Foreign exchange loss (gain)	24	0.19	10	0.16	(33)	19
Current income taxes	(5)	(0.04)	175	0.77	(103)	(105)
Total cash expenses	435	3.44	698	3.20	(40)	8
Funds flow from operations	1,478	11.66	4,522	20.02	(67)	(42)
Net income	(1,391)	(10.99)	1,368	6.06	(101)	(181)

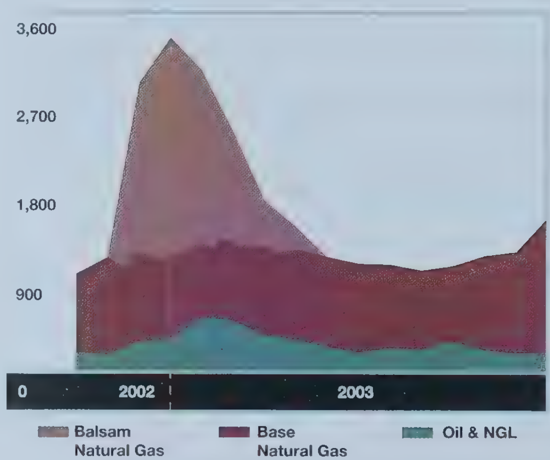
Revenues are a product of production and prices. The following discussion outlines the Company's Canadian production levels and commodity prices, with comparisons to prior periods.

Canadian Production

	2003	2002	% Change	Q4/03	Q4/02	% Change
Natural gas (mcf/d)	**7,193**	3,660	97	6,714	12,721	(47)
Oil and NGL (bbl/d)	**326**	101	223	257	335	(23)
boe/d	**1,525**	711	114	1,376	2,455	(44)

Late in the third quarter of 2002, the Company was able to diversify its production base by establishing natural gas focused core operating areas in Canada through the acquisition of Boundary Creek Resources Ltd. The Company initiated an exploration program that yielded a substantial exploration success at the Balsam field in west central Alberta, which increased Canadian production from a low of approximately 1,100 boe/d at the time of the acquisition in 2002 to a peak of 3,000 boe/d in early 2003. When the Balsam pool came under the threat of drainage by a competitor located on adjacent lands, the Company made the deliberate decision to aggressively but prudently produce its discovery, resulting in the capture of 85% of the reserves and economic value from the discovery. This decision led to significant Canadian production declines when the pool was depleted late in the first quarter of 2003. Without follow-up drilling success, the Company's production declined throughout the summer to a low of less than 1,000 boe/d. The Company decided to refocus its western Canadian exploration strategy, diversifying risk to achieve a more sustainable program. The result of this strategy change has been a steady increase in production through late 2003 and into 2004. Canadian production averaged 1,376 boe/d in the fourth quarter and was approaching 1,500 boe/d early in 2004.

Canadian Production
(boe/d)



The Company's Canadian production is up year-over-year, due to accounting for 12 months of operations in 2003, compared to four months in 2002. Quarterly production is down year-over-year, largely due to a substantial contribution from the Balsam discovery in the fourth quarter of 2002, compared to no contribution from this discovery in the fourth quarter of 2003.

Prices

	2003	2002	% Change	Q4/03	Q4/02	% Change
Natural gas						
AECO – (Cdn$/mmbtu)	**6.71**	4.07	65	5.59	5.26	6
BVX – pre hedge ($/mcf)	**6.93**	n/a[1]	–	6.28	5.56	13
BVX – hedge impact ($/mcf)	**(0.19)**	–	–	0.04	–	–
BVX – post hedge ($/mcf)	**6.74**	n/a[1]	–	6.32	5.56	14
Oil and NGL						
WTI Cushing (US$/bbl)	**31.04**	26.08	19	31.18	28.14	11
Edmonton Light (Cdn$/bbl)	**43.14**	39.94	8	43.14	42.81	1
Corporate average (Cdn$/bbl)	**27.15**	n/a[1]	–	27.15	31.73	(14)
Total operating revenue ($/boe)	**37.85**	30.73	23	37.85	33.22	14
US$/Cdn$ exchange	**0.714**	0.637	12	0.763	0.637	20

(1) The Company prices received do not relate to the full year 2002 and are not comparable to full year 2003.

Natural Gas

The Company's Canadian natural gas is sold on a daily Alberta market spot price basis. Western Canadian natural gas prices are referenced to the AECO Hub in Alberta. The Company generally receives a premium of 3 – 5% to AECO prices (before hedging) due to higher heat content of the natural gas. In 2003, prices averaged $6.93 per mcf before hedging and $6.74 per mcf after hedging. Full year averages for 2002 are not comparable because the Company had Canadian operations for only four months of 2002; however, the benchmark prices were up 65% year-over-year. In the fourth quarter of 2002 and 2003, hedging had a minor effect. Prices averaged $6.28 per mcf before hedging and $6.32 per mcf after hedging in the fourth quarter of 2003 ($5.56 per mcf before and after hedging effects in the fourth quarter of 2002).

Oil and Natural Gas Liquids

The benchmark price for oil in North America is West Texas Intermediate (WTI). Canadian oil prices are referenced to the posted price at Edmonton, Alberta, which represents the WTI price adjusted for currency, transportation and quality differentials. Bow Valley's oil and liquids production is largely comprised of natural gas liquids, which includes pentanes plus, butane, propane and ethane and results in a lower price compared to the Edmonton Light crude oil reference price. In 2003, the discount averaged $16.00 per barrel.

Royalties

($000s)	2003	2002	% Change	Q4/03	Q4/02	% Change
Crown royalties	**3,793**	1,559	143	933	1,344	(31)
Other royalties	**1,922**	469	310	689	403	71
	5,715	2,028	182	1,622	1,747	(7)
Alberta Royalty Tax Credit	**(500)**	(404)	24	–	(372)	(100)
Net royalties	**5,215**	1,624	221	1,622	1,375	18
% of revenue	**25%**	20%	25	36%	18%	100

Royalties in Canada are payable to the Crown on a sliding scale basis, with adjustments based on prices, well productivity and product quality. The Alberta Royalty Tax Credit (ARTC) is a credit paid by the Alberta government and is subject to a maximum. The Company reached this annual maximum in 2003 and expects to reach the annual maximum again in 2004.

The increase in net royalties in 2003 is attributable to the increase in revenue for the year, while the percentage increase is largely due to higher natural gas prices. In the fourth quarter of 2003, the decrease in Crown royalties is due to lower revenues while the increase in other royalties is due to the effect of overriding royalty burdens resulting from contractual obligations under farm-in arrangements on certain new wells. The increase in net royalties on a quarterly basis is due to the Company reaching the maximum ARTC rebate prior to the fourth quarter of 2003, while receiving the full rebate in the fourth quarter of 2002.

Operating Costs

	2003	2002	% Change	Q4/03	Q4/02	% Change
Operating expense ($000s)	**3,491**	999	249	979	910	8
Operating expense ($/boe)	**6.27**	3.85	63	7.73	3.85	101

Operating costs were higher in 2003 versus 2002 due to the Company's full year of operations in 2003, compared to approximately four months of operations in 2002. Unit operating costs were up slightly due to a greater portion of the Company's production in 2002 arising from the low unit operating cost production at the 2002 Balsam field discovery well, as well as higher costs in 2003 for energy (power) and higher costs of services.

Fourth quarter 2002 operating expenses and per unit operating expenses were influenced by significant volumes of low unit operating cost production from the Balsam field, which was not producing in the fourth quarter of 2003.

The vast majority of Bow Valley's natural gas production is gathered, processed and/or compressed through third-party infrastructure on a fee basis. These fees constitute between $0.40 and $1.00 per mcf ($2.40 – $6.00 per boe) of operating cost depending upon the facilities accessed. Utilizing third-party facilities generally results in somewhat higher per unit production costs than using owned facilities but it also reduces the time and capital required to bring new discoveries on stream. It also allows the Company to maximize capital available for exploration and drilling activities and permits much greater flexibility in accommodating a broad spectrum of expected production rates and project life spans that would be difficult to achieve cost effectively through a Company-owned facility.

Low production rate properties with owned/operated facilities (Mikwan, Stettler and Highvale) have a high component of fixed costs that adversely affect per unit figures. The Company can mitigate these high costs to some degree by adding production volumes. The Company's focus in these areas is to accomplish this via well optimization, recompletions and new drilling, to the extent possible.

Depletion, Depreciation and Accretion

($000s)	**2003**	2002	% Change	Q4/03	Q4/02	% Change
Total depletion, depreciation and accretion ($000s)	**12,334**	4,009	208	4,057	3,422	19
Total depletion, depreciation and accretion ($/boe)	**22.65**	15.62	45	32.03	15.36	109

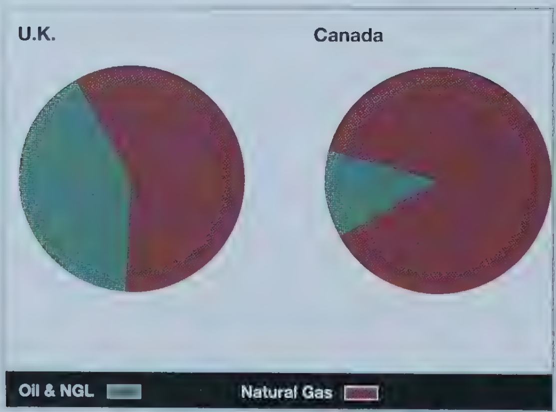
In 2003, DD&A expense was higher due to the full year of production and revenue, compared to four months in 2002. Unit DD&A expense rose due to the proved reserve revisions previously outlined. Fourth quarter DD&A was higher year-over-year on an absolute and relative basis for the same reasons; however, it was exacerbated by the effect of the reserve revisions in the fourth quarter. The Company expects that, as it continues to add reserves from its successful Canadian drilling program and, as it converts probable reserves into proved reserves, this DD&A rate will decrease in the future.

Goodwill

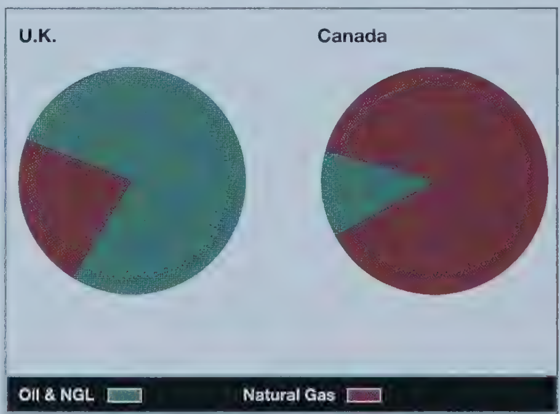
At December 31, 2003, the Company had $8.5 million in goodwill (2002 – $8.5 million) recorded on its balance sheet, arising from the Company's acquisition of Boundary Creek Resources Ltd. in 2002.

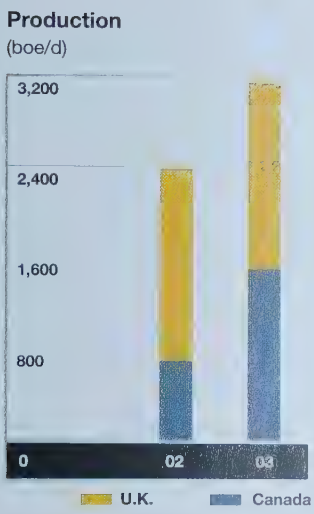
The Company recorded no additional goodwill in 2003. The Company does not amortize goodwill but tests it at least annually for impairment. The Company has made no provision for impairment of goodwill at December 31, 2003. Goodwill could become impaired in the future and in such event, a write-down would occur.

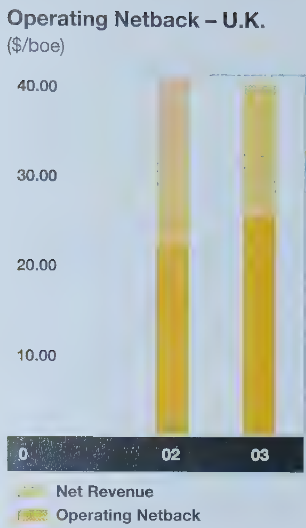
2003 Proved Reserves
(boe)

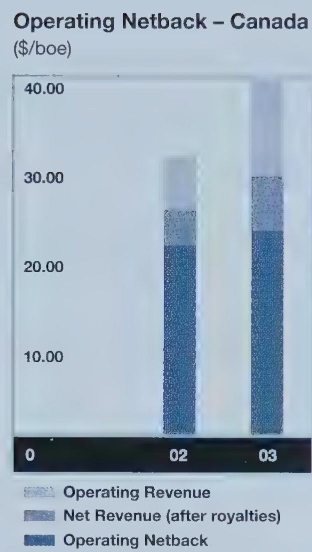


2003 Proved Plus Probable Reserves
(boe)









UNITED K

The following discussion relates only to the Company's U.K. reserves. For discussion regarding the Company's Canadian reserves and important disclosure regarding NI 51-101, please see the reserves discussion in the Canada section of this MD&A, on page 32.

U.K. Reserves (Forcast Pricing)	Gas	Oil	NGL	boe
Total proved	(mmcf)	(mbbl)	(mbbl)	(mboe)
December 31, 2002 opening	9,330.0	1,980.0	–	3,535.0
Revisions	(1,020.0)	(1,390.0)	–	(1,560.0)
Drilling discoveries	–	–	–	–
Drilling extensions	–	–	–	–
Acquisitions	380.0	610.0	–	673.3
Divestitures	–	–	–	–
Production	(1,423.6)	(365.8)	–	(603.1)
December 31, 2003 closing	**7,266.4**	**834.2**	**–**	**2,045.2**
Total proved plus probable				
December 31, 2002 opening[(1)]	29,580.0	14,580.0	–	19,510.0
Revisions	(7,380.0)	(2,810.0)	–	(4,040.0)
Drilling discoveries	–	–	–	–
Drilling extensions	–	–	–	–
Acquisitions	890.0	1,240.0	–	1,388.3
Divestitures	–	–	–	–
Production	(1,423.6)	(365.8)	–	(603.1)
December 31, 2003 closing	**21,666.4**	**12,644.2**	**–**	**16,255.2**

(1) In prior years the Company reduced probable reserves by 50% in accordance with a broadly used industry convention to report "established" reserves. It is not necessary to reduce the previous year's reserves by 50% to be comparable with this year's proved plus probable reserves as both reports were prepared following the same methodology as that in NI 51-101, where the proved plus probable reserves represent a best estimate.

Reserves

The Company's U.K. proved plus probable reserves declined by 17% due to production of 3%, downward revisions of 21%, offset by acquisitions of 7%. The Company's U.K. proved reserves declined by 42% due to production of 17%, downward revisions of 44%, offset by acquisitions of 19%. The acquisitions relate to the Company adding to its working interests at the undeveloped fields of Chestnut and Ettrick. The Company added to its interest due to increased confidence that the fields will be developed as a result of the change in operator. The reserve revisions were largely related to Kyle and Chestnut reserves. Kyle revisions were due to field performance. Chestnut proved plus probable reserves were revised lower due to a reduced estimate of oil-in-place. Chestnut proved reserves were reclassified from proved to probable due to the estimate no longer supporting proved reserves at a 90% probability.

U.K. Revenue & Funds Flow

	2003		2002		% Change	
	($000s)	($/boe)	($000s)	($/boe)	($000s)	($/boe)
Operating revenue	**20,696**	**34.32**	23,631	38.12	(12)	(10)
Interest and other	**1,820**	**3.02**	59	0.10	2,985	2,920
Royalties	**(47)**	**(0.08)**	(41)	(0.07)	15	14
Net revenue	**22,469**	**37.26**	23,649	38.15	(5)	(2)
Operating costs	**8,218**	**13.63**	11,813	19.06	(30)	(28)
Operating netback	**14,251**	**23.63**	11,836	19.09	20	24
General and administrative costs	**657**	**1.09**	414	0.67	59	63
Interest expense	**538**	**0.89**	546	0.88	(1)	1
Foreign exchange loss (gain)	**(293)**	**(0.49)**	384	0.62	(176)	(179)
Total cash expenses	**902**	**1.49**	1,344	2.17	(33)	(31)
Funds flow from operations	**13,349**	**22.14**	10,492	16.92	27	31
Net income	**4,964**	**8.23**	3,902	6.30	27	31

	Q4/03		Q4/02		% Change	
	($000s)	($/boe)	($000s)	($/boe)	($000s)	($/boe)
Operating revenue	3,891	31.80	7,523	40.10	(48)	(21)
Interest and other	313	2.56	13	0.07	2,308	3,557
Royalties	(8)	(0.07)	(41)	(0.22)	(80)	(68)
Net revenue	4,196	34.29	7,495	39.95	(44)	(14)
Operating costs	1,639	13.39	2,933	15.63	(44)	(14)
Operating netback	2,557	20.90	4,562	24.32	(44)	(14)
General and administrative costs	52	0.42	287	1.53	(82)	(73)
Interest expense	252	2.06	194	1.03	30	100
Foreign exchange loss (gain)	168	1.37	(72)	(0.38)	(333)	(461)
Total cash expenses	472	3.85	409	2.18	15	77
Funds flow from operations	2,085	17.05	4,153	22.14	(50)	(23)
Net income (loss)	(562)	(3.69)	2,065	13.21	(127)	(72)

Revenues are a product of production and prices. The following discussion outlines the Company's U.K. production levels and commodity prices with comparisons to prior periods.

Production

	2003	2002	% Change	Q4/03	Q4/02	% Change
Natural gas (mcf/d)	**3,900**	2,042	91	3,210	3,133	2
Oil and NGL (bbl/d)	**1,002**	1,358	(26)	795	1,517	(48)
boe/d	**1,652**	1,698	(3)	1,330	2,039	(35)

The Kyle field is the Company's only producing field in the North Sea. Kyle oil production declined largely as a result of the maturing of this field. Production was hampered by a problem at one of the producing wells, causing it to be shut-in late in the year, which had a minor negative effect on annual production levels, but a somewhat magnified effect in the fourth quarter. The operator continues to attempt to bring the shut-in well back on production, but to date has not been successful. The field produces to a floating production storage and offloading vessel (FPSO) under a contract which expires in late 2005. Negotiations are currently underway regarding new arrangements that would be more advantageous for Kyle production. Natural gas production was higher year-over-year due to a pipeline blockage of the Kyle natural gas export line in 2002, which severely reduced natural gas production in 2002. Fourth quarter natural gaswas flat year-over-year as no effect of the blockage was evident.

Prices

	2003	2002	% Change	Q4/03	Q4/02	% Change
Natural gas						
BVX (Cdn$/mcf)	**4.20**	5.56	(24)	4.75	4.53	5
Oil and NGL						
Brent (US$/bbl)	**28.86**	24.95	16	29.49	26.61	11
BVX – pre hedge ($/bbl)	**40.59**	43.57	(7)	36.55	46.53	(21)
BVX – hedge effect ($/bbl)	**(0.34)**	(0.85)	(60)	–	(2.25)	–
BVX – post hedge ($/bbl)	**40.25**	42.72	(6)	36.55	44.28	(17)
Total operating revenue ($/boe)	**34.32**	38.12	(10)	37.85	40.10	(6)
£/Cdn$ exchange	**0.437**	0.424	3	0.441	0.408	8

Oil

The benchmark price for oil in the U.K. North Sea is Brent crude. Brent generally trades at a discount to WTI, with that discount varying due to relative demand for oil between Europe and North America as well as tanker costs for transporting oil between the two continents. In the U.K., production from the Kyle field receives a slight premium compared to the Brent benchmark price. In 2003, that premium averaged US$1.19 per bbl (2002 – US$0.46 per bbl). In the fourth quarter the premium averaged US$1.12 per bbl (2002 – US$0.63 per bbl).

Natural Gas

In the U.K., natural gas is contracted on an annual basis each October. The price is set each year based on a formula indexed by the arithmetic average of the natural gas and oil price for the previous year in the U.K. as well as historical index prices for natural gas. The only variable during the year results from fluctuations in the British pound sterling to Canadian dollar exchange rate.

Royalties

($000s)	**2003**	2002	% Change	Q4/03	Q4/02	% Change
Crown royalties	**–**	–	0	–	–	–
Other royalties	**47**	41	15	8	41	(80)
Net royalties	**47**	41	15	8	41	(80)
% of revenue	**0.2**	0.2	0	0.2	0.5	(60)

There is no crown royalty payable on oil or natural gas production in the U.K. The Company is required to pay a gross overriding royalty of US$0.10 per barrel on oil production from the Kyle field to a third party on cumulative net oil production in excess of 870,000 barrels of oil. This royalty became payable in 2002.

Operating Costs

	2003	2002	% Change	Q4/03	Q4/02	% Change
Operating expense ($000s)	**8,218**	11,813	(30)	1,639	2,933	(44)
Operating expense ($/boe)	**15.38**	15.95	(4)	15.96	15.64	2
Pipeline interruption ($/boe)	**(1.75)**	3.11	(156)	–	–	–
Net operating expense ($/boe)	**13.63**	19.06	(28)	15.96	15.64	2

The majority of operating costs for the Kyle field are fixed and relate to the cost of the FPSO. These costs are somewhat offset by tariff income for processing third-party production from a nearby field. In 2002, the pipeline blockage of the Kyle natural gas export line led to a reduction of production and revenue from the field, without a corresponding reduction in operating expenses. Operating costs were lower in 2003 due to the insurance recovery of some costs related to the pipeline blockage. The recovery received in 2003 leads to the appearance of lower operating costs and per unit operating costs. However, due to the fixed cost nature of the FPSO, unit costs will rise over time as throughput decreases. As the field production declines with the maturing of the field, the fixed costs are borne by a lower production base, causing unit operating costs to rise and affecting profitability of production. The operator of the Kyle field is evaluating options regarding the tie-back of field production to a nearby FPSO at a fixed per unit operating cost and/or negotiating a new contract for the currently utilized FPSO.

Depletion, Depreciation and Accretion

	2003	2002	% Change	Q4/03	Q4/02	% Change
Total depletion, depreciation and accretion ($000s)	**8,019**	6,589	22	3,113	2,087	49
Total depletion, depreciation and accretion ($/boe)	**13.29**	10.63	25	20.48	17.73	16

U.K. DD&A was largely affected by the lower proved reserve base as discussed in other sections of this MD&A. The lower reserve base resulted in higher DD&A charges.

Interest and Other Income

The Company began receiving income from its investment in the Balal project in Iran in 2003 and expects approximately $2 million to be paid over the next two years. During 2003, the Company recorded $1.0 million of revenue (2002 – nil) from the Balal project and recorded related costs of $0.4 million (2002 – nil).

Interest Expense

Bow Valley recorded a total of $0.7 million of interest expense for 2003 (2002 – $0.6 million). Interest expense for the fourth quarter 2003 was $0.3 million, compared to $0.2 million for 2002.

General and Administrative Expenses

($000s)	2003	2002	% Change	Q4/03	Q4/02	% Change
Regular G&A	**2,977**	2,723	9	672	730	(8)
Management change	**–**	404	–	–	–	–
U.K. office[1]	**866**	295	194	260	174	49
Overhead recoveries	**(399)**	(162)	146	(96)	(147)	(35)
Subtotal	**3,444**	3,260	6	836	757	10
Capitalized overhead	**(912)**	(788)	16	(405)	–	–
G&A as reported	**2,532**	2,472	2	431	757	(43)

(1) Allocated amount

General and administrative expenses (G&A) for 2003 were $2.5 million, compared to 2002 expenses of $2.5 million. Regular G&A for 2003 increased by $0.254 million over 2002, reflecting the increased exploration activity in 2003. The comparison of fourth quarter 2003 G&A as reported versus 2002 shows a decrease of $0.326 million, which is the result of the Company's increased capitalized exploration costs due to the increase in exploration activities.

Foreign Exchange

Bow Valley's wholly-owned subsidiary Bow Valley Petroleum (U.K.) Limited has a bank facility that is denominated in U.S. dollars. Current accounts, including accounts payable, are typically denominated in British pound sterling. As a result of the Canadian dollar strengthening between the time the debt and payables were incurred and the time they were repaid or valued on the balance sheet dates, the Company realized a gain of $0.2 million for 2003 (2002 – loss of $0.4 million) and a 2003 fourth quarter loss of $0.2 million (2002 – loss of $0.1 million).

Asset Retirement Obligation

At December 31, 2003, the Company's PP&E includes an asset retirement cost of $4.7 million and an asset retirement obligation has been recorded of $8.1 million. A total undiscounted expected cost of abandonment and site reclamation are $17.9 million and occurs over the next 27 years.

Other Assets

Current Other Assets include 2004 expected Balal project cost recovery and a 12% convertible debenture maturing in December 2004. This debenture is convertible by the Company at its face value or into 1.6 million common shares of the issuer. The debenture was received as partial payment in the sale of the Company's onshore U.K. assets, which were sold in 2003. Included in Other Assets is $0.6 million relating to Balal project costs to be recovered in 2005.

Taxes

Current tax expense relates solely to capital taxes paid by Bow Valley Energy Ltd. No cash income taxes were payable in either 2003 or 2002.

Canadian Operations

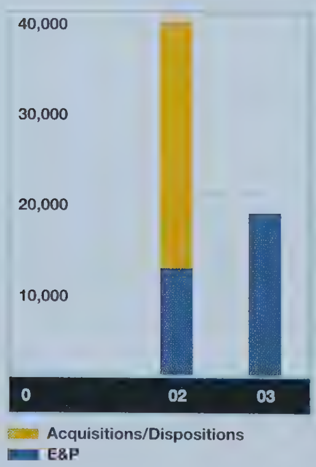
The Company recorded a future tax recovery of $989,665 for 2003 as compared to $1,669,039 in 2002. The recovery in 2003 is related to: the reduction in federal and provincial income tax rates; changes to the Canadian federal resource allowance deduction; the deductibility of crown charges; and the taxability of ARTC. These changes were enacted during 2003 and legislated late in the year. Future federal tax rate reductions will be phased in over five years, beginning in 2003.

U.K. Operations

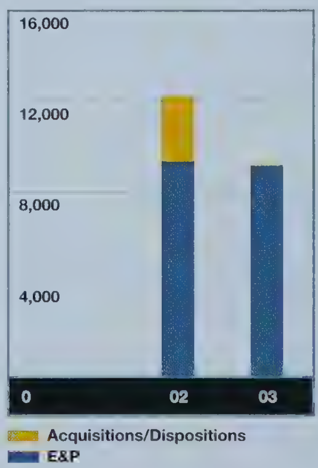
Bow Valley offset possible future tax benefits by recording a full valuation allowance relating to losses and unclaimed tax pools in the U.K.

The Company had tax pools available of $31.2 million in Canada (2002 – $27.3 million) and $34.4 million in the U.K. (2002 – $38.4 million). The Company does not anticipate paying any current income tax in either jurisdiction in 2004.

Capital Expenditures – Canada
($000s)



Capital Expenditures – U.K.
($000s)



Capital Costs

($000s)	2003	2002	% change	Q4/03	Q4/02	% change
Canada						
Land and lease costs	**1,351**	1,369	(1)	230	796	(71)
Geological and geophysical	**1,536**	1,698	(10)	163	1,221	(87)
Drilling and completion	**11,415**	6,355	80	2,740	2,807	(2)
Tangible production equipment	**2,567**	1,449	77	1,417	1,017	39
Other	**782**	954	(18)	243	271	(10)
Total	**17,651**	11,825	49	4,793	6,112	(22)
U.K.						
Acquisition – Chestnut	**1,182**		–	1,182	–	–
Acquisition – Kyle additional interest	**–**	2,756	–	–	–	–
Development						
Kyle	**(20)**	4,568	(100)	24	28	(14)
Chestnut	**66**	591	(89)	49	(222)	(122)
Other	**86**	981	(91)	(3)	685	(100)
Exploration						
Aviemore	**2,969**	–	–	2,752	–	–
Joppa	**2,980**	–	–	111	–	–
Joppa seismic	**1,270**	–	–	(336)	–	–
Squirrel	**961**	–	–	2	–	–
West Compton	**24**	1,520	(98)	(29)	–	–
Other	**814**	1,661	(51)	189	393	(52)
Total	**10,332**	12,077	(14)	3,941	884	346

In Canada capital expenditures were $17.7 million for 2003, an increase of $5.8 million over 2002. The drilling and equipping cost increase reflects the Company's expanded exploration activities in western Canada.

In the U.K. the Company expended $10.3 million in 2003 versus $12.1 million in 2002, a reduction of $1.8 million. In 2003, the Company increased its interest in the Chestnut area at a cost of $1.2 million and drilling costs for the year were approximately $3.66 million.

Land

	Undeveloped		Developed	
(acres)	Gross	Net	Gross	Net
Total international	225,048	40,505	13,912	1,988
Total domestic	78,632	45,171	51,020	20,079
Total	**303,680**	**85,676**	**64,932**	**22,067**

Drilling Activity

	U.K.		Canada	
	Gross	Net	Gross	Net
Oil	–	–	–	–
Natural gas	–	–	12	9.1
Abandoned[1]	2	0.4	8	4.6
Natural gas suspended	–	–	2	1.2
Total	**2**	**0.4**	**22**	**14.9**

(1) The Aviemore well in the U.K. was spudded in 2003 but was unsuccessful and abandoned in 2004 and has not been included in these figures.

Liquidity and Capital Resources

At year-end 2003, the Company had a working capital deficiency of $2.8 million. The Company is able to finance this deficiency through bank lines and funds flow from operations. The Company has a bank facility in the U.K. with an approved limit of US$1.1 million. At year-end 2003, US$1.0 million was drawn on this facility. In Canada, the Company has a $6.0 million facility. At year-end 2003, the Company had approximately $0.6 million drawn on this facility.

Commodity Risk Management

Due to the Company's strong balance sheet, Bow Valley is better able to withstand variances in commodity prices. As a result, the Company has done very little hedging. The Company may consider hedging from time to time, especially relating to acquisition valuation and financing. The Company's hedging policy is outlined in Note 1h to the Consolidated Financial Statements. In 2003, the Company incurred losses of $0.6 million due to natural gas and oil hedging. 2002 hedging losses were $0.4 million. There were no hedging losses in Q4/03 or Q4/02.

The Company currently has no hedges in place.

Contractual Requirement/Commitments

In the North Sea, Bow Valley has participated in a contract for the use of an FPSO at the Kyle field. The commitment is £14,000 per day (net) and runs to November, 2005 but can be terminated earlier with 16 months notice.

In Canada, the Company enters into non-material commitments for compressors and pipeline access in the normal course of business. These commitments are short-term in nature, expiring before the end of 2004. The Company office lease commitments are outlined in Note 6 to the Consolidated Financial Statements.

Outlook/Business Risks

Bow Valley is forecasting capital spending of $25 million in 2004, with $15 million allocated to Canada, $5 million allocated to the U.K. North Sea and $5 million unallocated.

We will continue to build on our recent production momentum in western Canada and we expect to post strongly improved finding and development costs in 2004.

In the U.K., we will continue to pursue means of optimizing production from the Kyle field, while pursuing development of our undeveloped assets at Chestnut, Blane, Enoch, and Ettrick. We continue to evaluate potential acquisition opportunities in the North Sea.

The Company expects commodity prices to be volatile, reflecting the current tight supply and demand fundamentals for North American natural gas and world crude. Political events around the world, which are impossible to predict, will continue to influence both oil and natural gas prices. Higher commodity prices often lead to higher levels of industry activity which in turn lead to higher costs for land, reserves and services. These higher costs influence the investment returns received on the Company's capital expenditures.

In addition to volatile commodity prices, the Company's results are influenced by currency exchange rates between the Canadian dollar, U.S. dollar and British pound sterling. The Company has mitigated some of this risk by diversifying its borrowings to include U.S. and Canadian dollar debt.

Additional information may be found on the SEDAR website at www.sedar.com.

MANAGEMENT'S REPORT

The accompanying Consolidated Financial Statements of Bow Valley Energy Ltd. and all other financial and operating information contained in this Annual Report are the responsibility of management. The Consolidated Financial Statements have been prepared in accordance with accounting policies detailed in the notes to the Consolidated Financial Statements and in accordance with generally accepted accounting principles in Canada.

The Company's systems of internal control have been designed and maintained to provide reasonable assurance that assets are properly safeguarded and that the financial records are sufficiently well maintained to provide relevant, timely and reliable information to management.

External auditors, appointed by the shareholders, have independently examined the Consolidated Financial Statements. They have performed such tests as they deemed necessary to enable them to express an opinion on these Consolidated Financial Statements.

An Audit Committee of the Board of Directors has reviewed these Consolidated Financial Statements with management and the external auditors. The Board of Directors has approved the Consolidated Financial Statements on the recommendation of the Audit Committee.

Robert G. Moffat
President and Chief Executive Officer
March 22, 2004

Matthew L. Janisch
Vice President, Finance and Chief Financial Officer

AUDITORS' REPORT

To The Shareholders of Bow Valley Energy Ltd.

We have audited the Consolidated Balance Sheets of Bow Valley Energy Ltd. as at December 31, 2003 and 2002 and the Consolidated Statements of Operations and Deficit and Cash Flows for the years then ended. These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of operations and the changes in its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Alberta
March 18, 2004

CONSOLIDATED BALANCE SHEETS

As at December 31	2003	2002 (restated – note 2)
ASSETS		
Current assets		
Cash and short-term investments	$ 4,573,627	$ 3,688,922
Accounts receivable	6,483,314	10,242,771
Other (note 7)	1,217,530	–
	12,274,471	13,931,693
Property, plant and equipment, net (note 5)	69,102,886	61,360,775
Other assets (note 7)	573,515	1,338,861
Goodwill (note 6)	8,512,450	8,512,450
	$ 90,463,322	$ 85,143,779
LIABILITIES		
Current liabilities		
Accounts payable	$ 13,216,725	$ 12,471,432
Bank indebtedness (note 8)	1,886,614	6,310,400
	15,103,339	18,781,832
Asset retirement obligation (note 9)	8,094,765	6,863,720
Future income taxes (note 10)	898,755	300,638
SHAREHOLDERS' EQUITY		
Share capital (note 12)	82,224,840	78,960,714
Contributed surplus (note 11)	55,251	–
Deficit	(15,913,628)	(19,763,125)
	66,366,463	59,197,589
	$ 90,463,322	$ 85,143,779

See accompanying notes to the Consolidated Financial Statements

Approved by the Board,

Daryl K. Seaman
Director

George Y. Tooley
Director

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

For the years ended December 31	2003	2002 (restated – note 2)
Revenue		
Operating	**$ 41,753,331**	$ 31,604,935
Interest and other	**1,833,455**	157,299
Royalties, net of royalty tax credit	**(5,261,846)**	(1,664,847)
	38,324,940	30,097,387
Expenses		
Operating	**11,708,827**	12,812,187
General and administrative	**2,532,862**	2,472,015
Interest	**660,870**	604,950
Amortization of deferred financing costs	**–**	80,855
Depletion, depreciation and accretion	**20,352,160**	10,597,826
Amortization of other assets	**365,346**	–
Foreign exchange loss (gain)	**(225,339)**	420,369
	35,394,726	26,988,202
Income before income taxes	**2,930,214**	3,109,185
Taxes – Current (note 10)	**70,382**	174,834
– Future tax recovery (note 10)	**(989,665)**	(1,669,039)
	(919,283)	(1,494,205)
Net income	**3,849,497**	4,603,390
Deficit		
Beginning of the year	**(19,531,925)**	(23,975,776)
Retroactive change in accounting policy (note 2)	**(231,200)**	(390,739)
Beginning of the year, as restated	**(19,763,125)**	(24,366,515)
End of the year	**$ (15,913,628)**	$ (19,763,125)
Earnings per share (note 13)		
Basic and diluted	**$ 0.06**	$ 0.09

See accompanying notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31	2003	2002 (restated – note 2)
Operating activities		
Net income for the year	$ 3,849,497	$ 4,603,390
Non-cash items		
Depletion, depreciation and accretion	20,352,160	10,597,826
Amortization of other assets	365,346	–
Amortization of deferred financing costs	–	80,855
Future tax recovery	(989,665)	(1,669,039)
Stock-based compensation	55,251	–
Funds flow from operations	23,632,589	13,613,032
Net change in non-cash working capital	7,067,056	(8,961,774)
	30,699,645	4,651,258
Investing activities		
Acquisition of property, plant and equipment	(27,982,534)	(23,901,628)
Disposition of property, plant and equipment (note 7)	330,363	–
Abandonment costs	(28,589)	(2,267)
Acquisition of Boundary Creek Resources Ltd.	–	(10,000,476)
Net change in non-cash working capital	(2,562,302)	7,111,231
	(30,243,062)	(26,793,140)
Financing activities		
Issuance of Class A common shares		
Private placement	5,000,000	14,004,275
Exercise of options	203,039	446,776
Exercise of warrants	–	500,000
Bank indebtedness	(4,423,786)	4,113,911
Debenture	–	(500,000)
Share issue costs	(351,131)	(860,878)
	428,122	17,704,084
Increase (decrease) in cash during year	884,705	(4,437,798)
Cash and short-term investments at beginning of year	3,688,922	8,126,720
Cash and short-term investments at end of year	$ 4,573,627	$ 3,688,922
Cash flow supplemental information – cash paid		
Capital taxes paid	$ 11,523	$ –
Interest paid	$ 642,742	$ 604,950
Cash and non-cash transactions (note 3)		

See accompanying notes to the Consolidated Financial Statements

1. SIGNIFICANT ACCOUN

The Consolidated Financial Statements of Bow Valley Energy Ltd. (the "Company") have been prepared in accordance with accounting principles generally accepted in Canada.

Management estimates and measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions regarding certain assets, liabilities, revenues and expenses. Such estimates include those related to unsettled transactions and events as of the date of the financial statements. Others include estimates related to depletion, depreciation, amortization, accretion, asset retirement obligations, goodwill and the ceiling test. Actual results may differ from estimated amounts.

Significant accounting policies are summarized as follows:

(a) Principles of consolidation

The Consolidated Financial Statements include the accounts of the Company, all of its wholly-owned subsidiaries, and a 50% owned company (Croft (UK) Limited) which is consolidated using the proportionate consolidation method of accounting.

(b) Property, plant and equipment

The Company follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized and accumulated in country-by-country cost centres. Such amounts include land acquisition costs, geological and geophysical expenditures, carrying costs of non-producing properties, costs of drilling productive and non-productive wells and plant and equipment costs.

Gains or losses on sales of properties are recognized only when crediting the proceeds to capitalized costs would result in a change of 20% or more in the depletion rate.

Depletion and depreciation of properties and equipment is provided using the unit-of-production method based on the Company's share of proved oil and natural gas reserves before royalties, as determined by independent engineers for each country. Production and reserves of natural gas are converted to barrels of oil equivalent (boe) using an energy equivalent basis of six thousand cubic feet of natural gas to one barrel of oil equivalent (6 mcf – 1 boe). This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves as estimated by independent engineers and excludes the cost of unproved properties. The unproved properties are assessed periodically to ascertain whether impairment has occurred. If an unproved property is considered to be impaired, the amount associated with the impairment is added to costs subject to depletion. Certain costs relating to North Sea properties from which there has not been commercial production are not subject to depletion until commercial production commences.

Depreciation of other capital assets such as leasehold improvements, office furniture, computer and other equipment is provided based on rates ranging from 20% to 100% on a declining balance basis.

The Company applies a ceiling test as a test of impairment of its capitalized costs relating to its petroleum and natural gas properties. The cost centres are tested for recoverability by comparison to undiscounted estimated future net revenues (cash flows) from proved reserves using forecast prices, plus the unimpaired cost of unproved properties. When the carrying amount of a cost centre is not recoverable, the cost centre is written down to its estimated fair value.

(c) Goodwill

Goodwill, which represents the excess of purchase price over estimated fair value of net assets received is not amortized but is assessed at least annually for impairment. To assess impairment, the fair value of the reporting unit is determined and compared to the book value of the reporting unit. If the fair value is less than the book value, then the amount of the impairment is determined by deducting the fair value of the reporting unit's identifiable assets and liabilities from the fair value of the reporting unit to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impaired amount.

(d) Asset retirement obligation

The Company recognizes the estimated fair value of an Asset Retirement Obligation (ARO) in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a long-term liability with a corresponding increase in the carrying amount of the related asset. ARO obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes to the underlying cash flows. The capitalized amount is depleted on a unit-of-production basis over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Actual costs incurred are charged against the ARO to the extent of the recorded liability. Any difference between the actual costs incurred and the recorded liability is recognized as a gain or loss in the period in which the costs are incurred.

(e) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax effects of the differences between the amounts reported in the financial statements and the respective tax basis, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

Estimated future tax benefits related to losses and unclaimed costs for tax purposes are recognized as assets and in income, once it appears more likely than not they will ultimately be realized.

(f) Flow-through shares

The deductions for income tax purposes related to exploration and development activities funded by Canadian flow-through share arrangements are renounced to investors in accordance with income tax legislation. The Company incurred $5.1 million of flow-through related expenditures in 2003 (2002 – $7.0 million) and is obligated to incur an additional $5.0 million of exploration and development expenditures in 2004. Share capital will be decreased and future income tax increased to reflect the tax effect of flow-through share renouncements when the qualifying expenditures have been incurred.

(g) Stock option plan

Bow Valley has a stock-based compensation plan that allows employees and directors to purchase common shares of the Company. Option exercise prices approximate the market price for the common shares on the date the options are issued. Options granted under the plan vest over three years and expire five years after the grant date.

Stock-based compensation expense is deferred and recognized in earnings over the estimated exercise period with a corresponding amount being shown as contributed surplus.

The fair value of options granted is estimated using the Black-Scholes option pricing model. Factors used in this model include expected volatility, expected dividends, and risk-free interest rates. Consideration paid upon the exercise of the stock options is recorded as an increase to share capital together with corresponding amounts previously recognized in contributed surplus. Forfeitures are accounted for as they occur which result in reductions of compensation expense.

(h) Hedging

From time to time the Company enters into contracts to hedge crude oil and natural gas prices on a portion of its production to reduce the potential adverse effect of reduced lower prices and not for speculative purposes. The contracts are entered into with commodities trading institutions and may include costless collars, put options or fixed price contracts which are designated as a hedge. The Company only enters into these contracts if there is a strong correlation between the commodity being hedged and the underlying derivative financial instrument. Gains or losses on the contracts are included in revenues at the time of the sale of the related hedged production.

(i) Cash and cash equivalents

Cash and cash equivalents include interest-bearing short-term investments with maturity of three months or less when purchased.

(j) Joint ventures

Substantially all of the Company's exploration and development activities relating to oil and gas activities are conducted jointly with others. The accounts reflect the Company's proportionate interest in such activities.

(k) Foreign currency translation

The Company uses the temporal method for translating its foreign currency accounts and integrated foreign subsidiaries to Canadian dollars. Under this method, all monetary asset and liability accounts are translated to Canadian dollars at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at the exchange rate in effect when the assets were acquired or obligations incurred.

Revenues and expenses are translated to Canadian dollars at the monthly average exchange rate. Provisions for depletion, depreciation, and asset retirement obligation are translated at the same rate as the related balance sheet items. Foreign exchange gains and losses are included in earnings.

(l) Comparative amounts

Certain comparative figures have been reclassified to conform with the current year presentation.

2. CHANGES IN ACCOUNTING POLICY AND PRACTICES

The Canadian Institute of Chartered Accountants (CICA) has implemented several changes to accounting standards in 2003.

Full Cost Accounting Guideline

In December 2003, the Company adopted AcG-16 "Oil and Gas Accounting-Full Cost" which replaces AcG-5 "Full Cost Accounting in the Oil and Gas Industry". The new guideline modifies how the ceiling amount is determined by basing future net revenues on forecast prices and costs from proved plus probable reserves and discounting the result to arrive at the ceiling amount.

There is no effect on the Company's reported financial results as a result of applying the new Accounting Guideline AcG-16.

Asset Retirement Obligation

In December 2003, the Company adopted CICA Handbook Section 3110 "Asset Retirement Obligations". This change in accounting policy has been applied retroactively with restatement of prior periods presented for comparative purposes as shown in the following tables:

December 31, 2003 ($)	**Before Adoption**	**Increase/(Decrease)**	**After Adoption**
Property, plant and equipment net	**64,278,677**	**4,824,209**	**69,102,886**
Asset retirement obligation	**–**	**8,094,765**	**8,094,765**
Provision for site restoration	**2,637,032**	**(2,637,032)**	**–**
Future income tax liability	**1,217,434**	**(318,679)**	**898,755**
Opening deficit	**(19,531,925)**	**(231,200)**	**(19,763,125)**
Provision for site restoration expense	**1,204,000**	**(1,204,000)**	**–**
Depletion, depreciation and accretion	**18,802,875**	**1,549,285**	**20,352,160**
Future income tax recovery	**(728,025)**	**(261,640)**	**(989,665)**
Net income	**3,933,142**	**(83,645)**	**3,849,497**

December 31, 2002 ($)	Before Adoption	Increase/(Decrease)	After Adoption
Property, plant and equipment net	56,246,916	5,113,859	61,360,775
Asset retirement obligation	–	6,863,720	6,863,720
Provision for site restoration	1,461,622	(1,461,622)	–
Future income tax liability	357,677	(57,039)	300,638
Opening deficit	(23,975,776)	(390,739)	(24,366,515)
Provision for site restoration expense	777,177	(777,177)	–
Depletion, depreciation and accretion	9,923,149	674,677	10,597,826
Future income tax recovery	(1,612,000)	(57,039)	(1,669,039)
Net income	4,443,851	159,539	4,603,390

Stock-Based Compensation

The Company has elected to adopt and apply prospectively the amendments to the CICA Handbook Section 3870 stock-based compensation and other stock-based payments. Prior years have not been restated.

The adoption of this new accounting standard for stock-based compensation resulted in the Company recognizing an expense of $55,251 on the options granted in 2003 with an equivalent amount being recorded as contributed surplus.

3. SUPPLEMENTAL SELECTED CASH AND NON-CASH INFORMATION

The following presents the changes in certain accounts from the beginning of the year to the end of the year.

	January 1 2003	Cash Changes	Non-Cash Changes	December 31 2003
Property, plant and equipment, net (note 5)	$ 61,360,775	$ 27,652,171	$ (19,910,060)	$ 69,102,886
Future income taxes (note 10)	300,638	–	–	300,638
Future tax recovery	–	–	(989,665)	(989,665)
Share capital (note 12)	–	–	1,587,782	1,587,782
Total future income taxes	300,638	–	598,117	898,755
Share capital (note 12)	78,960,714	–	–	78,960,714
Flow-through shares issued	–	5,000,000	(1,730,412)	3,269,588
Options exercised	–	203,039	–	203,039
Issue costs	–	(351,131)	142,630	(208,501)
Total share capital	$ 78,960,714	$ 4,851,908	$ (1,587,782)	$ 82,224,840

	January 1 2002	Boundary Creek (1)	Cash Changes	Non-Cash Changes	December 31 2002
Property, plant and equipment, net (note 5)	$ 30,173,757	$ 17,883,216	$ 23,901,628	$ (10,597,826)	$ 61,360,775
Bank indebtedness (note 8)	–	2,196,489	4,113,911	–	6,310,400
Future income taxes (note 10)	–	(768,866)	–	–	(768,866)
Future tax recovery	–	–	–	(1,669,039)	(1,669,039)
Share capital (note 12)	–	–	–	2,738,543	2,738,543
Total future income taxes	–	(768,866)	–	1,069,504	300,638
Share capital (note 12)	58,251,076	9,319,799	–	–	67,570,875
Private placement	–	–	8,844,275	–	8,844,275
Flow-through shares issued	–	–	5,160,000	(2,949,158)	2,210,842
Options exercised	–	–	446,776	–	446,776
Warrants exercised	–	–	500,000	38,209	538,209
Issue costs	–	–	(860,878)	210,615	(650,263)
Total share capital	$ 58,251,076	$ 9,319,799	$ 14,090,173	$ (2,700,334)	$ 78,960,714

(1) Amounts relate to acquisition of Boundary Creek Resources Ltd. (note 4).

4. ACQUISITION OF BOUNDARY CREEK RESOURCES LTD.

Effective August 29, 2002, the Company acquired all of the issued and outstanding common shares of Boundary Creek Resources Ltd. ("Boundary"), a public company involved in the exploration, development and production of natural gas and oil in northern and central Alberta. The consideration paid was 6,213,211 shares of the Company valued at $1.50 per share ($9.3 million) and $9.6 million in cash. The value of the acquisition was $19.3 million (including $0.37 million in transaction costs) plus the assumption of Boundary's debt. The transaction was accounted for using the purchase method. The accounts include the results of Boundary effective August 29, 2002.

The purchase price equation is as follows:

Cash paid	
Purchase price	
Cash	$ 9,648,962
Other cash payments	370,241
Less cash acquired	(18,727)
Total	$ 10,000,476
Cost of acquisition	
Shares issued	$ 9,319,817
Cash	9,648,962
Transaction costs	370,241
Net debt	7,780,815
Total	$ 27,119,835
Purchase allocation	
Petroleum and natural gas properties	$ 17,883,216
Goodwill	8,512,450
Recognition of previously unrecorded tax benefit	2,415,000
Net future tax liability	(1,646,134)
Provision for site restoration	(44,697)
Total cost of acquisition	$ 27,119,835
Cash	18,727
Working capital deficiency	(5,603,071)
Bank indebtedness	(2,196,488)
Total	$ 19,339,003

5. PROPERTY, PLANT AND EQUIPMENT

December 31, 2003	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties			
U.K.	$ 80,932,151	$ 46,801,772	$ 34,130,379
Canada	55,090,915	20,196,411	34,894,504
France	1,001,202	1,001,202	–
	137,024,268	67,999,385	69,024,883
Other	699,488	621,485	78,003
	$ 137,723,756	$ 68,620,870	$ 69,102,886

December 31, 2002	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties			
U.K.	$ 75,156,333	$ 43,156,300	$ 32,000,033
Canada	32,883,865	3,943,336	28,940,529
France	992,481	783,248	209,233
	109,032,679	47,882,884	61,149,795
Other	546,191	335,211	210,980
	$ 109,578,870	$ 48,218,095	$ 61,360,775

At December 31, 2003, the net book value of U.K. oil and gas properties was $34.1 million (2002 – $32.0 million) of which $14.9 million (2002 – $8.3 million) consisted of unproved properties which were not depleted. In 2003, the Company relinquished the rights to its remaining exploration block in France and all the costs relating to France were written off.

At December 31, 2003, the net book value of Canadian oil and gas properties was $34.9 million (2002 – $28.9 million) of which $3.9 million (2002 – $1.0 million) consisted of unproved properties which were not depleted.

During 2003, the Company capitalized $0.9 million (2002 – $0.8 million) of overhead relating to exploration activities. The Company did not capitalize any interest in 2003 (2002 – nil). Depletion and depreciation amounted to $19.9 million for 2003 and $10.2 million in 2002.

In performing the ceiling test evaluation for the U.K. cost centre, the first part of the test (based on proved reserves) was not met. The second part of the test (based on proved plus probable reserves) indicated a material margin above the carrying amount and no impairment provision was required. The price forecast used in this evaluation was the independent engineer's as outlined in the table below and adjusted for quality and transportation differentials.

Year	Brent US$/bbl	Natural Gas Price US$/mmbtu
2004	27.90	3.59
2005	25.30	3.41
2006	23.70	3.16
2007	22.80	2.97
2008	22.20	2.66
2009	21.80	2.61
2010	21.60	2.60
2011	21.40	2.56
thereafter	flat	flat

In performing the ceiling test evaluation for the Canadian cost centre, the first part of the test was not met. The second part of the test using a futures price based on the forward market for the first two years and the independent engineer's price forecast thereafter indicated no impairment provision was required. The incremental discounted value associated with using the futures price in the first two years was approximately $2.0 million. The price forecast is outlined in the table on the next page and was adjusted for transportation and quality differentials.

Year	Exchange Rate	WTI US$/bbl	Edmonton Light Cdn$/bbl	AECO-C Price Cdn$/mmbtu
2004	0.7738	30.18	37.35	6.31
2005	0.7738	27.44	33.80	5.68
2006	0.7000	23.00	31.26	4.93
2007	0.7000	23.00	31.26	4.93
2008	0.7000	23.00	31.26	5.01
2009	0.7000	23.00	31.26	5.09
thereafter	0.7000	+1.5%/year	+1.5%/year	+1.5%/year

Future events, such as deteriorating operating performance or a reduction in commodity prices could lead to a future ceiling test write-down in the Canadian cost centre, the U.K. cost centre or both.

GOODWILL

The Company is required annually to test Goodwill for impairment. At December 31, 2003 no impairment was indicated based on allocating approximately 50% of the Company's market capitalization at December 31, 2003 to the Canadian segment.

[illegible]

The Company's service contract with the National Iranian Oil Company to develop the Balal oilfield was ratified by the Supreme Economic Council of Iran at the end of January 1999. The Company was successful in securing Elf Petroleum Iran as a joint venture partner and the service contract was executed on April 4, 1999. The Company's costs attributable to the project amounting to $0.6 million at December 31, 2003 and $1.3 million in 2002 have been classified as other assets on the Consolidated Balance Sheet. Included in current assets is $0.4 million relating to costs expected to be recovered during 2004.

The Company began receiving revenue from its interest in the Balal Project during 2003 and recorded as other income $1.0 million. Costs attributable to the project are being amortized over the expected revenues to be received during the next two years.

The Company sold its onshore U.K. properties during the year for $0.3 million cash consideration and a $0.8 million 12% convertible debenture. The convertible debenture matures on December 31, 2004 and has been classified as current assets. The debenture is convertible by the Company into 1,627,907 shares of the debenture issuer or for cash equal to the face value of the debenture.

BANK INDEBTEDNES

In the United Kingdom, the Company has a bank facility with an approved limit of US $1.1 million at an interest rate of LIBOR plus 1.75%. The approved limit is subject to semi-annual review and the facility expires on December 31, 2004. At December 31, 2003, US $1.0 million (2002 – US $4.0 million) was drawn on this facility. The bank facility is secured by a floating charge on all property, assets and rights of Bow Valley Petroleum (UK) Limited.

In Canada, the Company has a Cdn $6.0 million revolving credit facility. At December 31, 2003 $0.6 million (2002 – nil) was drawn on this facility. The facility is repayable on demand, bears interest at the bank's prime rate plus 0.25% per annum, and is secured by a $15.0 million demand debenture conveying a fixed and floating charge over all properties in Canada. The facility is subject to annual review on April 30 of each year.

9. ASSET RETIREM

	2003	2002
Balance – beginning of the year	$ 6,863,720	$ 3,879,584
Increase in obligations during the year	757,813	2,628,191
Settlement of obligations during the year	(28,589)	(2,267)
Accretion expense	501,821	358,212
Balance – end of the year	$ 8,094,765	$ 6,863,720

The total future asset retirement obligation was estimated by management based on the Company's net ownership interest in the wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. In Canada, the costs were estimated using the Energy Utilities Board guidelines for certain areas and were increased by amounts ranging from 20% – 33% based on management's experience and judgment. In the U.K., the estimates were performed by the Company's independent engineers. At December 31, 2003, the estimated net present value of the asset retirement obligation was $8.1 million ($5.0 million for the Company's U.K. operations and $3.1 million for the Canadian operations). The Company expects the undiscounted obligations of $17.9 million to occur over the next 27 years with the majority of costs incurred between 2005 and 2012. A discount rate of 7.5% and an inflation rate of 1.5% were used to calculate the present value of the asset retirement obligation.

10. FUTURE INCOM

The provisions for income taxes in the Consolidated Statement of Operations and Retained Earnings (Deficit) varies from the amount that would be computed by applying the expected tax rate to earnings before income taxes. The expected tax rates used were those in effect for the periods. The principal reasons for differences between such "expected" income tax expense and the amount actually recorded are as follows:

2003	Canada	U.K.	Total
Tax rate	40.62%	40.00%	
Expected income tax (recovery) expense	$ (826,465)	$ 1,985,936	$ 1,159,471
Increase (decrease) in income taxes resulting from:			
Capital tax	70,382	–	70,382
Federal resource allowance	(1,163,054)	–	(1,163,054)
Non-deductible Crown charges	1,440,220	–	1,440,220
Alberta Royalty Tax Credit	(192,945)	–	(192,945)
Change in rates	(310,810)	–	(310,810)
Foreign exchange adjustment	–	1,200,803	1,200,803
Change in valuation allowance	–	(2,118,376)	(2,118,376)
Attributed Canadian royalty income	(69,978)	–	(69,978)
Non-deductible – other	–	473,033	473,033
Other	133,367	(1,541,396)	(1,408,029)
	$ (919,283)	$ –	$ (919,283)

2002	Canada	U.K.	Total
Tax rate	42.12%	40.00%	
Expected income tax (recovery) expense	$ (334,135)	$ 1,560,992	$ 1,226,857
Increase (decrease) in income taxes resulting from:			
Capital tax	24,258	–	24,258
Federal resource allowance	(439,754)	–	(439,754)
Non-deductible Crown charges	673,718	–	673,718
Alberta Royalty Tax Credit	(170,352)	–	(170,352)
Other	133,973	418,636	552,609
Changes in rates	42,789	(1,080,146)	(1,037,357)
Foreign exchange adjustment	–	(2,255,855)	(2,255,855)
Reversal of valuation allowance	(1,370,933)	684,482	(686,451)
Attributed Canadian royalty income	(99,383)	–	(99,383)
Non-deductible – other	45,614	671,891	717,505
Actual income tax expense (recovery)	$ (1,494,205)	$ –	$ (1,494,205)

Future Tax

	2003	2002
Canada		
Net book value of property, plant and equipment in excess of tax basis	**$ (5,144,564)**	$ (4,650,049)
Asset retirement obligation	**1,077,677**	786,003
Non-capital loss carryforward	**2,555,151**	2,972,788
Share issue costs	**365,260**	405,767
Attributed Canadian royalty income	**247,721**	184,853
Future tax liability	**$ (898,755)**	$ (300,638)
U.K.		
Net book value of property, plant and equipment in excess of tax basis	**$ (8,493,200)**	$ (5,979,673)
Asset retirement obligation	**1,992,757**	1,750,233
Loss carryforward	**8,545,943**	8,393,316
Future tax asset	**2,045,500**	4,163,876
Valuation allowance	**(2,045,500)**	(4,163,876)
Future tax liability	**$ –**	$ –

The approximate amounts of tax pools available are as follows:

As at December 31	2003	2002
Canada	**$ 31,156,427**	$ 27,330,459
U.K.	**34,399,531**	38,362,855
Total	**$ 65,555,958**	$ 65,693,314

Tax Losses – Canada

At December 31, 2003, the Company had losses available to offset future income for tax purposes of $7.0 million. The losses expire in the years as noted:

Year	Amount
2004	$ 1,019,167
2005	583,647
2006	1,295,221
2007	1,315,100
2008	1,440,170
2009	1,315,371
Total	$ 6,968,676

Tax Losses – U.K.

The Company has provided a valuation allowance for the full amount of net future income tax assets in the U.K. As at December 31, 2003, the Company had approximately $21.4 million of losses (2002 – $19.2 million) available to offset future income for tax purposes. The losses have an indefinite life.

11. STOCK-BASED COMP

For 2003, $55,251 was included in general and administrative expense for stock-based compensation and an equivalent amount is being credited to contributed surplus. This amount was determined using the Black-Scholes option pricing model, using a risk-free interest rate of 4.04%, expected life of four years, expected average volatility factor of 67.48, and no dividends.

If the fair value method had been adopted prior to January 1, 2003 using the Black-Scholes option pricing model, compensation costs would have been $89,923, which have not been included in the 2002 statements. For 2003, an additional $193,727 would have been added to the 2003 compensation costs which have not been included in the 2003 statements. There would be no effect on basic and diluted earnings of $0.06. This is based on using a risk-free interest rate of 3.83%, average expected life of three years, average expected volatility of 48.98% and no dividends.

a) Authorized

Unlimited number of Class A, Class B and Class C Common Shares without nominal or par value.

Unlimited number of Class D, Class E and Class F Preferred Shares.

b) Issued

Class A common shares	Number	Amount
As at December 31, 2001	45,449,971	$ 58,251,076
Private placement	6,099,500	8,844,275
Corporate acquisition (note 4)	6,213,211	9,319,817
Options exercised	681,066	446,758
Flow-through	2,400,000	5,160,000
Warrants exercised	1,000,000	538,209
Tax effect of flow-through shares and issue costs	–	(2,738,543)
Issue costs	–	(860,878)
As at December 31, 2002	61,843,748	$ 78,960,714
Options exercised	166,265	203,039
Flow-through	2,500,000	5,000,000
Tax effect of flow-through shares and issue costs	–	(1,587,782)
Issue costs	–	(351,131)
As at December 31, 2003	**64,510,013**	**$ 82,224,840**

c) Stock options

	Number of Options	Exercise Prices	Weighted Average Exercise Price
Outstanding at December 31, 2001	3,904,332	$ 0.38 – $ 1.50	$ 1.21
Exercised	(681,066)	$ 0.38 – $ 1.25	$ 0.66
Granted in 2002	1,032,500	$ 1.30 – $ 1.61	$ 1.46
Cancelled	(776,400)	$ 0.38 – $ 2.00	$ 1.19
Outstanding at December 31, 2002	3,479,366	$ 0.38 – $ 1.61	$ 1.40
Exercised	(166,265)	$ 0.55 – $ 1.50	$ 1.22
Granted in 2003	865,000	$ 1.20 – $ 2.41	$ 1.66
Cancelled	(745,000)	$ 1.45 – $ 1.61	$ 1.49
Outstanding at December 31, 2003	**3,433,101**	**$ 0.38 – $ 2.41**	**$ 1.45**

The following tables summarize information about stock options exercisable and outstanding at December 31, 2003:

Options outstanding

Range of Exercise Price	Actual Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
\$ 0.38 – \$ 0.49	22,100	\$ 0.38	1.00
\$ 0.50 – \$ 0.99	203,200	\$ 0.60	1.36
\$ 1.00 – \$ 1.49	869,368	\$ 1.36	3.43
\$ 1.50 – \$ 1.99	2,293,433	\$ 1.55	3.50
\$ 2.00 – \$ 2.50	45,000	\$ 2.41	4.12
	3,433,101	\$ 1.45	3.35

Exercisable options

Range of Exercise Price	Actual Number Outstanding	Weighted Average Exercise Price
\$ 0.38 – \$ 0.49	22,100	\$ 0.38
\$ 0.50 – \$ 0.99	192,700	\$ 0.62
\$ 1.00 – \$ 1.49	364,100	\$ 1.30
\$ 1.50 – \$ 1.99	950,533	\$ 1.50
	1,529,433	\$ 1.33

13 PER SHARE INF

a) Basic per share information was calculated on the basis of the weighted average common shares outstanding during the year of 62,019,335 (2002 – 51,040,371).

b) Diluted per share information was calculated using 62,937,080 (2002 – 51,317,329). The amounts represent the sum of the weighted average shares outstanding plus an increase of 917,745 (2002 – 276,958) to account for the dilutive effects of the Company's outstanding stock options and warrants.

11 HIC SEGMENT INFORMATION

December 31, 2003	**Canada**	**United Kingdom**	**Consolidated**
Operating revenue	**$ 21,057,279**	**$ 20,696,052**	**$ 41,753,331**
Interest and other income	**13,646**	**1,819,809**	**1,833,455**
Royalties, net of royalty tax credit	**(5,214,736)**	**(47,110)**	**(5,261,846)**
Operating expenses	**(3,491,043)**	**(8,217,784)**	**(11,708,827)**
General and administrative expense	**(1,875,252)**	**(657,610)**	**(2,532,862)**
Foreign exchange (loss) gain	**(68,126)**	**293,465**	**225,339**
Interest expense	**(122,772)**	**(538,098)**	**(660,870)**
Amortization of other assets	**–**	**(365,346)**	**(365,346)**
Depletion, depreciation and accretion expense	**(12,333,622)**	**(8,018,538)**	**(20,352,160)**
Taxes – current	**(70,382)**	**–**	**(70,382)**
– future tax recovery	**989,665**	**–**	**989,665**
Net income (loss) for the year	**$ (1,115,343)**	**$ 4,964,840**	**$ 3,849,497**
Goodwill	**$ 8,512,450**	**$ –**	**$ 8,512,450**
Identifiable assets	**$ 48,513,695**	**$ 41,949,627**	**$ 90,463,322**
Total capital additions	**$ 17,650,852**	**$ 10,331,682**	**$ 27,982,534**

December 31, 2002	Canada	United Kingdom	Consolidated
Operating revenue	$ 7,973,707	$ 23,631,228	$ 31,604,935
Interest and other income	98,141	59,158	157,299
Royalties, net of royalty tax credit	(1,623,652)	(41,195)	(1,664,847)
Operating expenses	(998,935)	(11,813,252)	(12,812,187)
General and administrative expense	(2,058,322)	(413,693)	(2,472,015)
Foreign exchange loss	(36,198)	(384,171)	(420,369)
Interest expense	(58,632)	(546,318)	(604,950)
Deferred financing charges	(80,855)	–	(80,855)
Depletion, depreciation and accretion expense	(4,008,547)	(6,589,279)	(10,597,826)
Taxes – current	(174,834)	–	(174,834)
– future tax recovery	1,669,039	–	1,669,039
Net income for the year	$ 700,912	$ 3,902,478	$ 4,603,390
Goodwill	$ 8,512,450	$ –	$ 8,512,450
Identifiable assets	$ 52,928,083	$ 32,215,696	$ 85,143,779
Total capital additions	$ 11,825,164	$ 12,076,464	$ 23,901,628

15. FINANCIAL INSTRUMENTS

The Company recorded a loss of $617,651 from hedging during 2003 (2002 – loss of $449,804). At December 31, 2003, the Company had no financial hedging positions outstanding and no future sales or purchase commitments.

The Company's financial instruments are comprised of cash, accounts receivable, bank indebtedness, accounts payable, and a convertible debenture. There are no significant differences between the carrying value of these amounts and their estimated market values due to their short-term nature.

The Company is exposed to credit risk on its accounts receivable from its customers. The Company believes there is no significant concentration of credit risk.

The Company is exposed to interest rate risk to the extent of the floating charge of bank indebtedness.

16. COMMITMENTS

As at December 31, 2003, the Company is committed to long-term leases for offices of:

Year	Amount
2004	$ 177,783
2005	177,783
2006	177,783
2007	118,522
2008	–
Total	$ 651,871

The Company has contracted with a third-party for the use of a floating production offloading and storage vessel. The Company's commitment is £14,000 per day. The contract runs to November 2005 but can be terminated earlier with 16 months notice.

CORPORATE GOVERNANCE

Bow Valley strives to exhibit good corporate governance in all areas of its operations.

The Company has always made an effort to create a corporate culture that represents integrity, honesty and respect. The Company works hard to be a good corporate citizen.

The mandate of the Board of Directors is to supervise the management of the Company and to act in the best interests of the Company and its shareholders. The Board endeavors to act in accordance with all relevant laws, by-laws and regulations. The Board approves all significant decisions that materially affect the Company before they are implemented.

The Board is currently comprised of six members. All directors are unrelated directors except Robert Moffat, the President and Chief Executive Officer (CEO) of the Company. The Chairman of the Board is an unrelated director. None of the other directors work in the day-to-day operations of the Company, are party to any material contracts of the Company or receive any fees from the Company other than as directors. The Board can meet independently of management if required.

The Board is actively involved in the Company's strategic planning process and discusses and reviews all materials relating to the strategic plan with management. At least one Board meeting each year is dedicated to the strategic plan, which takes into account the risks and opportunities of the business. Management must seek the Board's approval for any transaction that would have a significant effect on the strategic plan.

The Board has appointed three committees, all of which are comprised of unrelated directors:

THE AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the Company's financial reporting procedures, the scope and extent of the annual audit and the performance of external auditors. The Audit Committee reviews and recommends for approval the annual financial statements of the Company. The Audit Committee has a direct communication channel with the external auditors and meets with them independently of management. The Board also reviews interim financial statements prior to release. The Audit Committee meets at least quarterly.

The Board, through the Audit Committee, reviews the effectiveness of the Company's internal control systems and management information systems. The Board consults with management to attempt to ensure the integrity of these systems. The Board assumes responsibility for identifying the main risks that affect the business and ensures that the right systems are in place to manage these risks.

THE RESERVES COMMITTEE

The Board has also established a Reserves Committee, which is responsible for reviewing the independent engineers' reserves report. Management has included the Reserves Committee in discussions between the Company and the independent engineers with respect to the reserves reports. The Reserves Committee also has direct access to the independent engineers.

THE COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

The Compensation and Corporate Governance Committee is responsible for, among other things, developing the Company's approach to governance. This committee also has the responsibility for monitoring and assessing the effectiveness of the Board, its committees and the individual directors, including the composition and size of the Board and its committees and compensation of the Board members. The Board feels the current size of the Board is adequate for the size of the Company. The compensation of directors is reviewed periodically and takes into account the responsibilities and risks, especially with respect to comparable publicly traded companies.

The Board is responsible for choosing the President and CEO, approving the hiring of senior management and monitoring their performance. The Board approves the President and CEO's compensation. The Board and CEO have not developed position descriptions for the Board and CEO. The Board expects the CEO, together with management, to manage the business of the Company in a manner that enhances shareholder value and is consistent with the highest level of integrity. Responsibilities that are not delegated to senior management or a Board committee remain the responsibility of the full Board. The Board annually approves the key business and financial objectives of the Company as presented by management. These annual performance targets, in addition to long-term objectives of profitable growth and increasing shareholder value, define the mandate of the CEO and the management team.

The Board approves all of the Company's major communications, including annual and quarterly reports, financing documents and material press releases. The Company communicates with its stakeholders through a number of channels including press releases, management presentations and the Company web site. Shareholders can provide feedback in a number of ways, including email or telephone. Further disclosure regarding corporate governance related directly to the TSX corporate governance guidelines can be found in the following table.

TSX Corporate Governance Guidelines	Bow Valley's Practice
1. The Board should explicitly assume responsibility for stewardship of the corporation. Specifically, the Board should assume responsibility for:	Bow Valley Energy Ltd.'s Board of Directors acknowledges its responsibility for the stewardship of the Company and oversees the development of corporate strategies and the implementation of the Company 's operational plans. The Board meets on a regular basis to review and discharge its obligations.
(a) adoption of a strategic planning process	The Board meets at least once per year to discuss and approve strategic plans. Senior management formulates the strategies and operational plans for the Company and presents such plans and strategies for review and approval by the Board. The Board reviews the financial models and operational progress several times each year and appropriate adjustments are implemented as required. The Board approves all significant business transactions.
(b) identification of principal risks and the implementation of appropriate risk-management systems	The Board reviews and discusses the risks associated with the oil and gas business and reviews management's assessment and management of these risks. These risks are considered and incorporated into the decisions of the Board.
(c) succession planning and monitoring senior management	The Board is responsible for appointing and monitoring management. The Compensation and Corporate Governance Committee of the Board reviews the performance of members of management and establishes their remuneration. The Committee submits its recommendations to the Board of Directors for approval.
(d) communications policy	The Board has generally delegated the communications policy to the senior management of the Company. In this regard, the Company has adopted a corporate disclosure policy, which provides that shareholder communications will be generally handled by the President and Chief Executive Officer. However, on occasion, the President and Chief Executive Officer may designate other members of management and/or directors to communicate with shareholders directly. The policy provides for, among other things, procedures to identify material non-public information and to prevent inadvertent disclosure. The Compensation and Corporate Governance Committee also periodically reviews and monitors the Company's communication policy with a view to determining whether the Company is effectively communicating with shareholders, the investment community and the public generally. The Board is responsible for reviewing the Company's compliance with continuous disclosure and reporting obligations. News releases are issued to report quarterly and annual results, highlight material facts and provide updates regarding the material activities of the Company.

TSX Corporate Governance Guidelines	Bow Valley's Practice
(e) integrity of internal control and management information systems	The Audit Committee of the Board monitors and assesses the integrity of the Company's internal control and management information systems. The Audit Committee has direct access to the external auditors.
2. Majority of directors are "unrelated"	The Board is currently composed of six directors. Of these six directors, five are non-management "unrelated directors". Unrelated directors are directors who are free from any interest or any business or other relationship that, in the opinion of the Board, could, or could reasonably be perceived to materially interfere with the director's ability to act with a view to the best interests of the Company.
3. Disclose whether each director is "unrelated"	The unrelated directors on the Board are: Daryl K. Seaman (Chairman of the Board), C. Kent Jespersen, Kenneth R. Stiles, George Y. Tooley and Henry R. Lawrie. The sixth director is Robert G. Moffat, who is President and Chief Executive Officer of the Company.
4. Appoint a committee responsible for appointment/assessment of directors, composed of a majority of unrelated directors	The Compensation and Corporate Governance Committee has the responsibility for reviewing and reporting to the Board on matters relating to the nomination of directors. The Committee develops criteria for the selection of directors and procedures to identify nominees, reviews and assesses the qualifications of nominees (including any potential conflicts of interest) and submits names of nominees to the Board for consideration and decision. The Committee is also responsible for determining if any Board member's qualifications have changed or other circumstances have arisen so as to warrant a recommendation that that member resign. All of the members of the Compensation and Corporate Governance Committee are unrelated directors.
5. Implement a process for assessing the effectiveness of the Board, its committees and individual directors	The Compensation and Corporate Governance Committee has ongoing responsibility for monitoring and assessing the Board's effectiveness and the effectiveness of its committees and individual directors in accordance with developed procedures.
6. Provide orientation and education programs for new directors	The Company has no formal orientation or education program for new directors. All new directors have significant corporate governance experience and have access to management to review the Company's operational and financial matters.

TSX Corporate Governance Guidelines	Bow Valley's Practice
7. Consider reducing the size of the Board with a view to improve its effectiveness	The Compensation and Corporate Governance Committee considers and, from time to time, makes recommendations to the Board on the appropriate size of the Board. The Board considers the merits of changing the size of the Board when it passes the resolution identifying the directors to be appointed at the annual meeting of shareholders. The Board considers that its current composition with six directors is appropriate.
8. Review compensation of directors in light of risks and responsibilities	The Compensation and Corporate Governance Committee periodically reviews the directors' level of compensation in comparison to Board members of similar corporations. The Committee recommends changes to such compensation to the Board for approval when it deems it appropriate.
9. Committees should generally be composed of non-management directors and the majority of committee members should be unrelated	The Compensation and Corporate Governance Committee assists the Board with respect to the appointment of directors to Committees. The Committee annually reviews and recommends to the Board the establishment of Committees, the size and composition thereof, appointments to each Committee and any changes to the terms of reference of the Committees. The Board reviews the composition of each of its committees annually. Each committee is comprised entirely of unrelated directors.
10. Appoint a committee responsible for determining the corporation's approach to corporate governance issues	The Compensation and Corporate Governance Committee is responsible for developing and monitoring the Company's approach to corporate governance. The Committee reviews and recommends to the Board for approval. reports and disclosure concerning the Company's governance practices as required by the Toronto Stock Exchange and other regulatory authorities.
11. Define limits to management's responsibilities by developing mandates for: **(a) the Board** **(b) the chief executive officer**	The Board and Chief Executive Officer have not developed position descriptions for the Board and Chief Executive Officer. The Board expects the Chief Executive Officer, together with management, to manage the business of the Corporation in a manner that enhances shareholder value and is consistent with the highest level of integrity. Responsibilities that are not delegated to senior management or a Board committee remain the responsibility of the full Board. The Board annually approves the key business and financial objectives of the Corporation as presented by management. These annual performance targets in addition to long-term objectives of profitable growth and increasing shareholder value define the mandate of the Chief Executive Officer and the management team.

TSX Corporate Governance Guidelines	Bow Valley's Practice
12. Establish procedures to enable the Board to function independently of management	The Chairman of the Board, Daryl K. Seaman, is a non-management, unrelated director and five of the six directors are unrelated. The Board has the ability to meet independently of management if required.
13. Establish an audit committee with a specifically defined mandate, with all members being outside directors	The Audit Committee is responsible for reviewing the Company's financial reporting procedures, internal control systems, management information systems, the scope and extent of the annual audit and the performance of external auditors. The Audit Committee reviews and recommends for approval the annual financial statements of the Company. The Audit Committee has a direct communication channel with the external auditors and meets with them independently of management. The Board also reviews interim financial statements prior to release. The Audit Committee is comprised of four unrelated directors (George Y. Tooley, C. Kent Jespersen, Kenneth R. Stiles and Henry R. Lawrie). The Board has also established a Reserves Committee that is responsible for reviewing the independent engineers' reserves report. The Reserves Committee has direct access to the independent engineers. The Reserves Committee is comprised of four unrelated directors (Kenneth R. Stiles, C. Kent Jespersen, George Y. Tooley and Henry R. Lawrie).
14. Implement a system to enable individual directors to engage outside advisors, at the corporation's expense	The Compensation and Corporate Governance Committee reviews and considers the engagement at the expense of the Company of professional and other advisors when so requested by individual directors. The Board advises management when it determines additional legal or financial advice is required. The Board has access to the Company's outside counsel independent of management.

BOARD OF DIRECTORS

Daryl K. Seaman, ***Chairman of the Board***

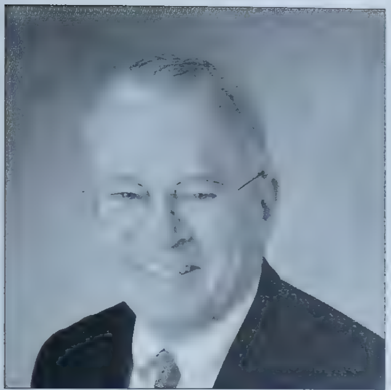
Mr. Seaman is Chairman of the Board and a founder of Bow Valley Energy Ltd. From 1992 to present, he has been Chairman and President of Dox Investments Inc., a private holding company. From 1949 through 1992, he was Chairman, Chief Executive Officer and Director of Bow Valley Industries Ltd. and its predecessor companies, which he co-founded. Other directorships include Canadian Chemical Reclaiming Ltd., Far West Mining Ltd. and Western Lakota Energy Services Ltd. Mr. Seaman is an Officer of the Order of Canada.

Robert G. Moffat, ***President, Chief Executive Officer, Director***

Mr. Moffat, P. Geol., is President, Chief Executive Officer and a Director of Bow Valley Energy Ltd. Mr. Moffat graduated from Queen's University, Kingston, Ontario, Canada in 1977. From 1995 to 2001, he was President, Chief Executive Officer and Director of Courage Energy Inc. From 1992 through 1995, he was President of Springsyde Resources Ltd., a company he founded and which later became Courage Energy Inc. through an amalgamation and name change in 1995. Prior thereto, he was Vice President and Director of Highridge Exploration Ltd. Mr. Moffat has been instrumental in directing corporate growth through oil and natural gas exploration in Canada, the United States and internationally.

C. (Kent) Jespersen, ***Director***

Mr. Jespersen is Chairman and Chief Executive Officer of La Jolla Resources International Ltd. From 1976 to 1998, he served in various senior management capacities with the NOVA group of companies, including President of NOVA Gas International Ltd. and Senior Vice President of NOVA Corporation. Mr. Jespersen serves on the boards of a number of Canadian corporations. Mr. Jespersen has been a director of Bow Valley Energy Ltd. since 1996 but will not stand for re-election in 2004 due to time constraints and added responsibilities from his other corporate directorships.

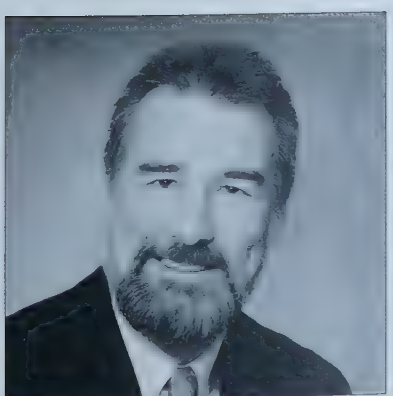


Henry R. Lawrie, *Director*

Mr. Lawrie joined Price Waterhouse in Calgary in 1962, was admitted to partnership in 1971, transferred to Toronto in 1972, transferred to Calgary in 1974, transferred to Dallas in 1979 under the Partners' International Program and transferred to Calgary in 1981. He served as Co-chairman, Price Waterhouse Canada Oil and Gas Specialty; Managing Partner, Price Waterhouse, Calgary; Representative, Price Waterhouse World Council of Partners; Representative, Price Waterhouse World Firm Advisory Group; and was twice elected to the Price Waterhouse Canada Policy Board. He retired in June 1997. In addition, Mr. Lawrie was Chief Accountant of the Alberta Securities Commission from 1997 through 2001, Chair of the Oil and Gas Securities Taskforce and Advisor to the Commission.

Kenneth R. Stiles, *Director*

Presently, Mr. Stiles is a Director of Echo Glen Consulting Ltd. and several other private companies. From 1992 through 2001, he was Executive Vice President and Secretary of Dox Investments Inc., a private holding company. From 1994 through 2001, he was a Director of Courage Energy Inc., a public oil and gas company, and from 2000 to 2001, served as Chairman of that company. From 1996 through 1999, Mr. Stiles was a Director of We X.L. Holdings Corporation, a public energy management company, as well as a Director of Highridge Exploration Ltd., a public oil and gas company.



George Y. Tooley, *Director*

Currently, Mr. Tooley is an Officer and Director of Fairstar Explorations Inc., a TSX listed junior mining company. As one of the principals of the Petrovest Group, Mr. Tooley has been actively involved in the financing and administration of mineral and petroleum projects for the last 14 years. From 1992 through 2001, he was a Director of Courage Energy Inc., a public oil and gas company.

FIVE-YEAR SUMMARY

	2003	2002	2001	2000	1999
		(restated)			
FINANCIAL ($000s except per share amounts)					
Revenue	**41,753**	31,605	24,510	11,291	1,715
Funds Flow	**23,633**	13,613	16,645	4,997	(341)
Basic per share ($/share)	**0.38**	0.27	0.42	0.15	(0.02)
Diluted per share ($/share)	**0.38**	0.27	0.40	0.15	(0.02)
Earnings (loss)	**3,849**	4,603	(15,933)	2,688	(898)
Basic per share ($/share)	**0.06**	0.09	(0.40)	0.08	(0.04)
Diluted per share ($/share)	**0.06**	0.09	(0.40)	0.08	(0.04)
Capital expenditures	**27,983**	51,021	12,619	13,881	6,325
Total assets	**90,463**	85,144	38,293	47,988	39,323
Working capital (deficit)	**(2,829)**	(4,850)	9,651	2,138	(1,595)
Long-term debt	**–**	–	(500)	(8,997)	–
Total net working capital (deficit)	**(2,829)**	(4,850)	9,151	(6,859)	(1,595)
Shares (000s)					
Basic	**64,510**	61,844	45,450	38,269	29,936
Outstanding options and warrants	**3,433**	3,479	4,904	5,706	2,161
Weighted average	**62,019**	51,040	39,787	34,050	27,441

	2003	2002	2001	2000	1999
OPERATING					
Daily production					
Crude oil and NGL [illegible]					
U.K.	**1,002**	1,358	1,472	667	165
Canada	**326**	101	–	–	–
Total	**1,328**	1,459	1,472	667	165
Natural gas [illegible]					
U.K.	**3.9**	2.0	2.7	–	–
Canada	**7.2**	3.7	–	–	–
Total	**11.1**	5.7	2.7	–	–
Barrels of oil equivalent [illegible]					
U.K.	**1,652**	1,698	1,927	667	165
Canada	**1,525**	711	–	–	–
Total	**3,177**	2,409	1,927	667	165
Reserves					
Crude oil and NGL [illegible]					
Proven					
U.K.	**834**	1,980	2,180	3,812	2,962
Canada	**189**	250	–	–	–
Probable					
U.K.	**11,810**	12,600	10,990	12,885	11,702
Canada	**64**	70	–	–	–
Natural gas [illegible]					
Proven					
U.K.	**7.3**	9.3	9.9	4.4	1.1
Canada	**8.1**	9.7	–	–	–
Probable					
U.K.	**14.4**	20.3	16.1	19.2	12.6
Canada	**2.9**	2.5	–	–	–
Undeveloped land [illegible]					
U.K.	**41**	104	75	80	54
Canada	**45**	38	10	–	–
France	**–**	283	486	485	485
Total	**86**	425	571	565	539

HEALTH, SAFETY AND ENVIRONMENT

Bow Valley's goal is to implement and maintain high standards of health, safety and environmental performance in our operations. Programs and policies related to these aspects of our operations continue to evolve, and staff are committed to their implementation. The Company currently operates and will continue to operate in a manner designed to ensure the health and safety of its employees, contractors and the public, and minimize adverse effects on the environment. We are committed to:

- Providing and following practical health, safety and environmental policies and programs for all employees and contractors;
- Preparing emergency response procedures that allow personnel to respond promptly and effectively to emergencies;
- Establishing training programs designed to ensure employees receive appropriate training relative to their job function;
- Considering good safety performance in the process of selecting contractors, suppliers and other services;
- Establishing monitoring procedures designed to ensure our operations are conducted in compliance with applicable laws and Company standards; and
- Establishing reporting investigation procedures for all injuries, serious incidents and environmental concerns.

AMOTO
Assistant

KARIN STEIN
Land Consultant

GREG DOUGLAS
Land Manager

Bow Valley maintained its role as an active operator during 2003 with the completion of an expanded drilling program in western Canada. We set targets of no accidents and minimal impact to the environment and, with the exception of one contractor lost-time incident early in the year, we achieved these goals in 2003. The Company participates in the Canadian Association of Petroleum Producers' (CAPP) Environment, Health and Safety Stewardship initiative. As such, we are committed to the continuous improvement of our environment, health and safety performance. We are continuing to plan and implement initiatives to enhance our performance, such as the pipeline operations and integrity management program that we instituted during 2003.

The broadening scope of our operations has necessitated a greater focus on the effect of our operations on the environment. We recognize the diversity of views that now exists among stakeholders, in particular those we come into contact with in rural areas, regarding the environmental impact of oil and natural gas activities. Bow Valley is committed to responding to stakeholder concerns. While we may not always share the same opinion, we recognize that positive, two-way communications and a willingness to consider project design alternatives can play an important role in providing an effective response to stakeholder concerns and in reducing our impact on the environment.

DON NOAKES
Contract Operations
Engineer

TONYA-LYNN HODDER
Operations Assistant

JASON ROBINSON
Geologist

ROBIN DANBY
Senior Geologist

GREG CROWELL
Senior Geologist

CORPORATE INFORMATION

BOARD OF DIRECTORS

Daryl K. Seaman, O.C. (1)
Chairman of the Board
Calgary, Alberta

Robert G. Moffat
President, Chief Executive Officer and Director
Calgary, Alberta

C. Kent Jespersen (1)(2)
Director
Calgary, Alberta

Henry R. Lawrie
Director
Calgary, Alberta

Kenneth R. Stiles (2)
Director
Calgary, Alberta

George Y. Tooley (1)(2)
Director
Montreal, Quebec

(1) Member of the Compensation and Corporate Governance Committee
(2) Member of the Audit Committee and Reserves Committee

MANAGEMENT

Robert G. Moffat
President and Chief Executive Officer

John W. Essex
Vice President, Operations

Nick J. Fairbrother
Director, International
New Business Development

David A. Fleming
Vice President, International

Matthew L. Janisch
Vice President, Finance and
Chief Financial Officer

Tom J. Ruissen
Vice President, Exploration

CORPORATE SECRETARY

R.J. (Bob) Engbloom

CORPORATE OFFICE

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Fax: +44 (0) 1483-562-667

BOARD OF DIRECTORS (U.K.)

Christopher D. Longman

David A. Fleming

Robert G. Moffat

Walter R. Roberts

AUDITORS

PricewaterhouseCoopers LLP

BANKERS

Bank of Scotland
Canadian Imperial Bank of Commerce

REGISTRAR AND TRANSFER AGENT

Valiant Trust Company

SOLICITORS

Macleod Dixon LLP
Dundas & Wilson

INDEPENDENT ENGINEERS

APA Petroleum Engineering Inc.
Ryder Scott Company
Petroleum Engineers

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol: BVX

ANNUAL INFORMATION FORM

The Annual Information Form can be obtained on request from the Company.

BILL KURUCZ
Consultant

JOANNI-LYNN HARVEY
Accounts Payable Assistant

TIM BLUST
Consultant, Seismic

LYLE CEDERGREN
Geophysicist

Share Trading S[illegible]

(Volume millions) [illegible] ($/share)

Abbreviations

bbl	barrel [illegible]
bbl/d	barrels [illegible] day
bcf	billion [illegible]
boe	barrels [illegible]
boe/d	barrels [illegible] per day
FPSO	Floating [illegible] and Off[illegible]
[illegible]	[illegible] and development costs
[illegible]	[illegible] Inter-Bank Offered Rate
[illegible]	thousands of barrels
[illegible]	thousands of barrels of oil equivalent
[illegible]	thousands of cubic feet
[illegible]	million barrels of oil
mmbtu	million British therm[illegible]
mmcf	million cubic feet
mmcf/d	million cubic feet per [illegible]
mstb	thousand stock tank barre[illegible]
WCSB	Western Canada Sedimentary Basin

In the interest of [illegible] potential investors with information regarding the Corporation, this annual report [illegible] forward-looking [illegible] operations, anticipated financial performance, business prospects and strategies. For[illegible] looking information [illegible] words such as "anticipate," "believe," "expect," "plan," or similar wording suggest[illegible] outcomes. Much of [illegible] Management's Discussion and Analysis. Forward-looking statements are based on curre[illegible] expectations, estima[illegible] a number of risks and uncertainties, which could cause actual results to differ materially [illegible] those anticipated by [illegible]

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